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UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

THE AGRICULTURAL OUTLOOK

Talk by F. V. Waugh, Director
Agricultural Economics Division
at the 32nd Annual Agricultural Conference
Washington, D. C., October 26, 1954

We expect neither boom nor bust in 1955. Rather, we expect employment, production, and purchasing power to stay very near present levels. There is little ground for fearing a general recession. And, unless war should break out, there is little reason to expect a revival of inflationary pressures.

This suggests that the domestic demand for farm products in 1955 will remain fairly stable and may increase some. Consumers are continuing to spend about 25 percent of their disposable incomes for food. Their disposable income -- and their food expenditures -- should be at least as much in 1955 as in 1954.

So much for general business -- which Mr. Koffsky covered more thoroughly yesterday.

The outlook for agriculture depends not only upon the general business situation -- but also upon many special factors that are especially important either to agriculture as a whole, or to specific farm commodities. Before judging the farm outlook for 1955, we might look at these special factors.

What is Holding Down Agricultural Prices?

Since February 1951, the index of prices received by farmers has dropped 21 percent. The sharpest drop was in 1952, but agricultural prices continued to drift lower in 1953 and in 1954. Part of the drop in agricultural prices during the past year can be explained by a softness in general business conditions. But farmers began to feel the pinch long before -- while industrial prices and wages were still on the upgrade.

Why?

1. High farm output was one reason for the decline in prices. Even with the serious drought, farm output in 1954 came within 2 percent of the record high year. Production was stimulated by World War II, then by postwar food relief, then by Korea. And throughout this period, high output was essential both as a defense measure, and as an anti-inflationary measure. But production has stayed high since 1951 in spite of reduced demand and lower prices, illustrating once again that farm production responds more quickly to a price rise, than it does to a price drop. With high investments in land, animals, machinery and equipment, farmers find it increasingly difficult to reduce total agricultural output, even when faced with surpluses. But farm output still responds to price changes -- especially to changes in relative prices.

2. Lower exports have been an important factor in the past 3 years. Following World War II, foreign countries were in critical need of our farm products, and we helped them fill these needs by many forms of aid. Beginning in second half of 1952, both of these factors became less important; there was less need abroad because production and stocks had increased in foreign countries, and our aid programs were shifted mainly to military aid. The dollar value of our agricultural exports fell from 4.1 billion dollars in fiscal 1952, to 2.8 billion in fiscal 1953, and may total about 2.9 billion in fiscal year ending June 30, 1954.

3. Heavy carryovers have resulted from large output, the decline in export demand, and price-support programs. CCC holdings (including commodities under loan) were valued at 6 billion dollars on July 31, 1954, compared with 3.5 billion on July 31, 1953. In this period, the CCC holdings of wheat increased from 537 million bushels to 883 million; of cotton from 2 million bales to 6.9 million; of butter from 248 million pounds to 503 million.

4. Higher marketing costs have also contributed to lower farm prices. The domestic consumer has been paying about the same retail prices for food, clothing and tobacco. But marketing costs have been taking a bigger bite out of the consumer's dollar -- leaving less of it for the farmer. While the farm value of the "market basket" was dropping from \$495 in 1951 to \$430 in 1954, the marketing charges for the same foods increased from \$531 to \$555.

What is a Postwar "Normal"?

These are the factors that have reduced farm prices over the past several years. In the course of that reduction, farmers have been caught in a price-cost squeeze and net incomes have diminished. Is the current price situation in agriculture unusually bad, or should we look at it as about normal? If we look back over the years we see that farm prices have averaged as well or better than 1954 only under exceptional circumstances, associated with war or conditions resulting from war. For example, if we look back to the late 1920's we find that from 1925 to 1929 the parity ratio ranged between 88 and 95 and averaged slightly over 91. Last year the parity ratio averaged 92. This year it is averaging about 90. Agricultural prices have fallen from the unusually high level of 1951.

It may well be that for high employment conditions in a peacetime economy, the sort of price situation we have is not particularly abnormal. At least, it is in line with statistical experience in the past. Unless we are very unsuccessful in preventing depressions, we should never again see the parity ratio below 60, as we did in 1932. And we would not expect prices to go far above parity except in years of inflation or extreme crop failure.

What is abnormal in the current situation is the large stock position of many farm products. The accumulation of these stocks by the CCC has helped to prevent a more severe drop in agricultural prices. But sooner or later these stocks must be reduced. Some of them may be exported or sold in non-competitive markets at home. But as long as CCC stocks of farm products are high, they will probably prevent any big upswing in prices.

These stocks and the heavy output of livestock products reflect the inertia of agricultural production to adjust to changing demand conditions. In the case of wheat and cotton, acreage restrictions in 1955 will bring further reductions. The supply position for these crops indicates stabilization of wheat stocks and a significant reduction of cotton stocks. On the livestock side, however, these adjustments are slower. Milk production is leveling off. Milk consumption will likely increase. Even if there were no further increase in per capita consumption of milk, the prospective gain in population by 1956 would increase consumption almost enough to eliminate the milk surplus. Adjustments will also occur in production patterns for eggs and broilers, which have had unfavorable prices this year. It is true that in some instances the short run response to lower prices is to increase output so as to maintain farm income. The longer run influence is to reduce production some. How fast and how far these adjustments go depend in part on ability to shift to other products and alternate prospects among them.

There is another declining trend in agriculture, in addition to price and income trends, which does not receive as much interest but which is nevertheless important. In recent years our farm population has been substantially reduced in number. According to sample indications, as of April 1st this year there are 21.9 million people living on farms. In 1951 there were 24.2 million. In 3 years, the number of persons living on farms has been reduced by close to 10 percent. During that same period net income in agriculture has been lowered by about 15 percent. On a per capita basis, therefore, the decline in income has been much less than the aggregate, and a little more than 5 percent. We must realize that there are fewer and fewer people on farms, and it should not be surprising if farm income in the aggregate does not increase so much as nonfarm income. Also persons living on farms have been getting more and more income from non-farm sources.

In terms of purchasing power, farm income, measured either on an aggregate or per capita basis, is down from 1951, but 1951 was an abnormal year associated with the Korean inflation. If we go back to prewar periods, we note that, even with declines in recent years, farm income has made significant gains, perhaps not markedly out of line with gains elsewhere in the economy.

The rate of migration from farms in the past four years has been somewhat more rapid than might have been expected on the basis of past trends and relationships to non-farm-employment opportunities. This may be due to the lowering of the relative income position of farmers. Obviously, the decline will have to stop somewhere. Even with complete mechanization, farms won't run themselves. But it seems likely that the farm population will decrease still further in the next few years.

Can we support our growing population with fewer farm workers? Probably so. It will mean still more mechanization, still more research, and still more extension work. We will need to emphasize efficiency - both in farming and in marketing. But we will also need satisfactory levels of farm income - incomes that will let farm families share the rising levels of living.

Barring war or depression, farmers can expect a relatively stable price situation for some years ahead, with agricultural prices perhaps averaging not far from the levels of the past two years. Yesterday, Grover Ensley told us that the general level of all prices is likely to be stable for several years. For much the same reasons, we expect a stable level of agricultural prices. Agricultural prices could not go far above present levels without causing large surpluses. Nor could they go far below without initiating efforts on the part of farmers and Government to adjust output and marketings.

High Spots of the Commodity Outlook

Now, let us look very briefly at some individual commodity situations. We shall consider them in more detail this afternoon. But we need a quick look at the high spots now to see how they affect the general agricultural picture.

Production of livestock and livestock products probably will be at least as large as this year. With prospects for a continued high level of demand, prices of livestock products in 1955 may average a little below this year.

The supply of red meat probably will increase a little in 1955; about as much beef and slightly more pork. Beef cattle prices are expected to hold near the prevailing levels, and hog prices are likely to be substantially below the favorable prices earlier this year, but at about an average relationship to the price of corn. Milk production in 1955 may run about the same as this year's record production of around 124 billion pounds. Prices will probably average about the same as the last 9 months of this year. Continued large supplies are in prospect for chickens and eggs for a few more months, although there should be some adjustments during 1955.

Crop output this year is down about 5 percent from 1953, largely because of reduced production of cotton and wheat. Acreage limitations may further reduce production of these crops in 1955. But most of the acreage diverted for wheat and cotton will be used for other crops and, with average growing conditions, crop output next year should total near 1954 levels. Although supplies of major crops will continue large most of the carryover stocks are held by the CCC under price support programs. Smaller "free" supplies of corn and a larger hog production probably will contribute to slightly higher corn prices in 1954-55. Other feed grain prices are expected to continue low in relation to corn. With a record crop, soybean prices will probably be lower but may continue above support levels. Prices for wheat are expected to continue at about present levels through the 1954-55 crop year. Prices for the 1955 crop will reflect the moderately reduced support level as well as continued large supplies. The supply of cotton in the current marketing year may total about the same as a year earlier. But some increase is expected for domestic use and export, and the carryover may be reduced a million bales or so from the 9.6 million bales carried into the 1954-55 marketing year.

The Agricultural Act of 1954

After several years of postponement, flexible supports will apply to the 1955 crops of basic commodities (except tobacco). What does this mean to the price outlook?

1. Note that the new Act does not affect the support level of any 1954 crop. Thus it does not affect the immediate outlook at all.

2. Minimum supports for 1955 crops of basic commodities (other than tobacco) may vary from $82\frac{1}{2}$ percent to 90 percent of parity, depending upon the relationship of total supply to "normal" supply. The main commodity affected in 1955 will be wheat. Tobacco will continue to be supported at 90 percent of parity when marketing quotas are in effect. Allowing for the "set asides" provided in the Act, the supports for all basic commodities except wheat are likely to be above the minimum of $82\frac{1}{2}$ percent of parity.

3. After 1955, the permitted range of minimum support levels is from 75 percent to 90 percent of parity. Also, modernized parity is permitted to go into effect on a gradual basis, beginning January 1, 1956. On the basis of present relationships, this would mean the following reductions in parity: cotton 4 percent; corn 11 percent; wheat 15 percent; and peanuts 20 percent. The rate of transition will be no more than 5 percent in any year. That is, the adjustment would take one year for cotton, 3 years for corn and wheat, 4 years for peanuts.

On the whole, there will be only moderate flexibility in price supports on the 1955 crops - but considerably more flexibility on the 1956 crops. The amounts of reduction will depend upon supply conditions which, in turn, depend upon the success or failure of efforts to adjust production and consumption.

I shall not try here to summarize all the provisions of the Agricultural Act of 1954. But I would like to mention two studies required by the Act.

"The Secretary of Agriculture is directed to make a study of various methods of production control and of the various methods of price support which could be made applicable to milk and butterfat and their products, including programs operated and financed by dairymen; and to submit to Congress on or before the 3rd day of January, 1955 a detailed report thereof showing, among other things, the probable costs and effects of each type of operation studied and the legislation, if any, needed to put it into effect."

Also, "the Secretary of Agriculture is directed to make a study of the various two-price systems of price support and marketing which could be made applicable to rice and to submit to Congress on or before March 1, 1955 a detailed report thereon."

These two studies are now under way. In both cases, the Secretary is authorized "to receive such statements and briefs in connection with such study as he deems appropriate." A meeting was held on October 14 with representatives of the dairy industry. A similar meeting will be held soon with representatives of the rice industry. The purpose of these meetings is to enable the industry representatives to submit written statements of their views to the Secretary in time for them to be considered in the study.

Such written statements can come from anybody who has an idea for better programs to support the prices of dairy products and rice.

The outlook for agriculture depends upon many things in addition to the levels of support written in the legislation. It depends upon the general economic situation. It depends upon rates of production and consumption. And it depends upon our ability to develop and carry out workable programs. The studies now under way are intended to give the Congress information, estimates, and suggestions. But the Congress will decide what sort of programs are to be authorized.

The 1955 Outlook

Assuming no war, and no international tension great enough to change our defense program significantly, agricultural prices in 1955 are expected to average about the same as current levels. With somewhat

lower farm output, this would mean a further small reduction in gross farm income. Farm production expenses may drop a little, too -- but probably not enough to offset fully the drop in gross income. On balance, we expect that net farm income in 1955 will approach that of 1954.

The Longer-term Outlook

If we can avoid the dangers of war and business depression, we would expect agricultural prices to remain relatively steady over the next several years. In this period, at least, we are not likely to experience extreme shortages of farm commodities, and we should be able to reduce surpluses to manageable levels. Of course, agricultural prices will go up and down with fluctuations in business and with changes in commodity situations. But in the next 5 to 10 years we would expect prices to average somewhere between 85 percent and 95 percent of parity.

Farm population will probably continue to decline, but probably at a rate somewhat slower than that of recent years. Mechanization of farming will continue further. Farm output will probably increase just about in line with the rise in total population.

Assuming economic policies are successful in maintaining high employment and rising levels of living for the population as a whole, the demand for meats, dairy and poultry products, fruits and vegetables should continue to increase.

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UNITED STATES DEPARTMENT OF AGRICULTURE

AGRICULTURE IN THE NATIONAL ECONOMY

Talk by Earl L. Butz, Assistant Secretary of Agriculture,
United States Department of Agriculture, Before the 32nd
Annual Agricultural Outlook Conference, Washington, D. C.,
October 25, 1954 at 1:30 P. M.

The United States has moved from a predominantly rural economy to a nation of city dwellers in a short span of a half century. In 1900, about 31 million out of our 76 million population, or 4 out of every 10 persons, were living on farms. Today, less than 22 million out of our 163 million population, or fewer than 1 out of every 7 persons, are living on farms.

We had in 1900 only three cities with over 1 million population and only 33 others with over 100 thousand population. Our cities have grown apace, with the 1950 Census showing 151 metropolitan areas of more than 100 thousand population, of which 14 had over 1 million inhabitants each.

In 1900, approximately 44 percent of the nation's civilian labor force was employed on farms, and one farm worker produced enough for himself and almost 6 additional consumers. Today only about 13 percent of our country's labor force is employed on farms, and one farm worker produces enough agricultural products for himself and about 17 other persons. The number of people engaged in farm work is now about one-third below the total so employed a half century ago. Yet this number, representing only about 5 percent of our total 163 million population, is feeding and clothing this country's inhabitants better than ever before in history. In addition, these people on our farms produce enough food and fiber beyond our domestic consumption needs to export about \$3 billion worth or more annually and still have enough left over to keep the Commodity Credit Corporation up to its ears in a mountain of Government-owned food and fiber. Increases in agricultural efficiency and production in our generation truly have been phenomenal.

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The share of the national income derived from farming has also changed. It has declined over the last century, although not as rapidly as has the proportion of the population engaged in agriculture.

By 1900, the farm share of the national income was close to 20 percent. By 1914, it dropped to 15 percent, but rose again to 20 percent during World War I. It fell rapidly to around 10 percent during the 1920's, and reached a depression low of 7 percent during 1932. During World War II, the farm share of the national income rose as high as 11 percent of the total, but with the rapid reduction in the farm population and labor force since the beginning of the war, it dropped to an all time low of 6 percent in 1953. Of course, we also recognize that in addition to income derived from farming, many farm people also receive income from non-farm work and other outside activities.

It is likely that agriculture's share of the national income will continue to decline modestly in the decades ahead. This is not necessarily bad since there probably will be fewer people engaged in agriculture. It is an inherent characteristic of a dynamic growing economy with a rising living standard. Properly managed, it should provide opportunity for continually higher living standards among our farm people as well as our city people.

The marked increase in the efficiency of agricultural production, indicated by the shrinking proportion of our people engaged in agriculture, is more apparent than real. Modern mechanized agriculture has transferred many functions to the city that were formerly performed on the farm. Farmers no longer raise their own power or grow their own fuel for that power. Many production processes formerly done on the farm are now purchased from large manufacturers or local custom operators. Many processing and distributing operations formerly done on the farm have been transferred to specialized marketing agencies.

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Whereas we now have approximately 8.5 million workers in agriculture, there are 10 million workers engaged in the processing and distribution of food and fiber. It is estimated that almost another 2 million workers are engaged in the manufacture and sale of farm machinery and equipment and the wide array of supplies needed in the production job on farms.

Although only 13 percent of our civilian work force is directly engaged in agriculture, it is easily apparent that another 20 percent depends for a living on work closely allied with the agricultural industry. This means that in the aggregate about one-third of our nation's employed labor force depends on agriculture, either directly or indirectly, for a living.

Truly agriculture remains one of our most basic industries. Its health and its progress are essential to the continued health and prosperity of our Nation, even though fewer and still fewer people are directly engaged in agriculture. It is at the very foundation of our national economy.

Public Assistance for Agriculture

Throughout our national history, agriculture has always "enjoyed" the sympathy of most non-farmers. Our agricultural industry has always been able to draw upon a substantial deposit in the bank of national good will. The balance in that account is still large, but it has been decreasing in recent years.

Our historical solicitude for agriculture is understandable. Until just a generation or two ago we were essentially an agricultural nation. Most of us who sit here today are at the most only one or two generations removed from active farming. That is true of vast numbers of urban families. Many urbanites, swept away in the hustle-bustle of city life, experience occasional nostalgia for what they believe to be the "good old days down on the farm," even though they may never have participated in them personally.

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There are other reasons why we, as a nation, have been uniquely sympathetic to our farmers. Even those who live in the densest part of our big cities recognize that food production is basic and vital. They have been slow to attack those who supply them with their food.

Through the years, non-farm people have been "sympathetic" with farmers because of their long hours of hard work, lack of city conveniences, and relative isolation from the cultural and recreational facilities of the city. Farmers are subject to weather and insect hazards, to price and income differentials as compared with other vocational groups, and have often struggled under the burden of heavy indebtedness while trying to pay for the farm they operated. Moreover, there has been a widespread belief in this country that a high proportion of farm owners contributes to economic and political stability. Out of this grew the concept of "the family farm."

Most people in this country have traditionally thought of the farmer as a "little guy," and we don't get hard-boiled with "little guys." Indeed, we give them preferential treatment.

This historical public sympathy toward farmers has found concrete expression in a long series of preferential legislative enactments.

Through the first two-thirds of the nineteenth century disposition of the public domain was marked by easy land and credit policies. This finally culminated in the Homestead Act of 1862.

In the same year, the Lincoln administration adopted the Morrill Act creating special agricultural research and educational institutions in our states, and also created the United States Department of Agriculture.

The Agricultural Experiment Stations were established in 1887, providing for a vast amount of scientific research at public expense for the agricultural industry. The Smith-Lever Act of 1914 established the Cooperative Extension Service,

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under which scientific investigations and recommendations were carried to farmers, at public expense. The Smith-Hughes Act in 1917 provided for the teaching of vocational agriculture in high schools. In the same year, the Federal land banks were established, presaging a broad system of agricultural credit institutions with considerable government underwriting through the years.

The decade of the 1920's saw growing support for direct Federal assistance to farm income, as witnessed by the McNary-Haugen controversy and the establishment of the Federal Farm Board.

Following the New Deal in 1933, a whole flood of preferential legislation for agriculture was unloosed. This flood-tide continues unabated today, even though its direction may change occasionally. It has become a "built in" feature of contemporary agriculture, regardless of the particular political complexion of the Congress.

Agriculture is Now Big Business

Although our farmers may still be pictured in folklore and poetry as "little guys," who have escaped the modern scientific revolution, nothing is further from the truth. American agriculture has come of age in the last two decades. It is now big business. It is inevitable that family farms are becoming larger, as the number of workers on farms decreases and as mechanization of our farms continues at a rapid pace. It is estimated that the value of the United States agricultural plant is \$127 billion. This means a national average of nearly \$25,000 per farm. Obviously, this average includes many small farms. The figure for typical commercial family farms is much larger.

On a group of some 300 farms in central Indiana, keeping farm records in cooperation with Purdue University, average capital invested in 1952 was \$86,500 per farm. This included real estate, livestock, equipment, and supplies. These

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were typical corn belt family farms, averaging 255 acres in size. The farms had an average of 1.75 men working per farm per year (including the operator). This means an average investment of \$49,500 per farm worker.

This means that on our good farms in the corn belt it now takes an investment of nearly \$50,000 to create one farm job. In American industry it takes an average investment of from \$12,000 to \$15,000 to create one industrial job. It takes about three times as much capital to create one agricultural job on good family-operated commercial farms. Truly agriculture has become big business. As such it calls for a very high level of managerial ability on the successfully operated farm.

Scientific research in agriculture has changed farming from a "way of life" to a "way of making a living." The "country hick" of a generation or two ago has almost completely disappeared from the American scene. The city limit sign which appears at the edge of your county seat town no longer means the same as it did a generation ago. It is now just a tax boundary. It is no longer a cultural boundary, a recreational boundary, an educational boundary, a social boundary, or an economic boundary. It is just a legal dividing line.

The same kind of people live on one side of that city limit sign as on the other. They have increasingly the same types of ambitions, similar cultural, social and economic opportunities, comparable ways of living, and even similar disappointments and frustrations. This development is all for the good. It has been associated with a lessening of the "drudgery" of farm life. The living conveniences of the city have been taken to the country. Mechanization and electrification bring shorter hours on the farm than a generation ago, with opportunity for higher economic rewards for the efficient farmer than existed a generation ago.

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When many of us were youngsters it was often said, "If you can't do anything else, you can farm." Today the situation is reversed. If you can't farm, you'd better do something else. Successful operation of the modern typical family commercial farm calls for a higher level of managerial capacity than does most of the family operated business concerns in your county seat town. The manager of a typical commercial family farm must make management decisions every week covering a much wider subject matter field than must the manager of a typical retail store in your county seat town. Successful management of the modern commercial farm is one of the most difficult jobs in your county.

Economic Outlook is More Essential Today Than Formerly

This is the 32nd year of economic outlook conferences in the United States Department of Agriculture. In the short span of a third of a century -- just a generation -- this work has grown to the place where every State in the Nation carries on a continuing extension educational program in agricultural outlook and economic information. There have been times through those years when the usefulness of the program was challenged. Fortunately, those courageous workers who did outlook in the early years stood up against the critics. Today economic outlook work both in the Federal Government and in the various States is both widely accepted and respected.

Never before was economic extension work among our farmers and our agricultural businessmen so essential as today. Modern agriculture is highly vulnerable to economic fluctuations. The shift from a self-sufficient agriculture to a commercial type of farming was not made without its cost. A farm operator who uses bad business judgment or who is even the unwitting victim of unfavorable cost-price relationships can be forced into liquidation so much more rapidly than a generation ago.

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Last year the realized gross income from agriculture was \$35.4 billion. Farm operator production expenses accounted for a little over \$22 billion, or 62.5 percent of the total. This left about \$13.3 billion, or 37.5 percent, as the realized net income of farm operators. This net income represented the total return to farm operators for the use of their capital, for their management, and the return for their own labor and that of their families. Before World War II (1935-39) realized net income averaged nearly 45 percent of realized gross income. Before World War I (1910-14) realized net income was about 50 percent of gross. This illustrates the fact that the farming business is much less self-sufficient in terms of production goods than was true in earlier years.

Formerly horses and mules fed on home produced feed provided much of the power used on farms. Now the chief source of power is purchased tractors and other machines which operate on purchased fuel.

Of the total production expenses of a little more than \$22 billion in 1953, about \$7.6 billion, or one-third, were costs such as depreciation of farm capital, taxes on farm property, and interest on farm mortgage debt and rent to nonfarm landlords -- all of which are costs not directly related to the level of farm output.

Outlook Work Has Become More Difficult

Reliable economic forecasting for agriculture has become immeasurably more difficult in the last two decades. In the early years of outlook work forecasting was based almost entirely on economic interpretation of factual data affecting agriculture. Our scientists developed a reasonable workable basis for predicting the economic behavior of masses of our population.

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In the last couple of decades it has become necessary for our agricultural outlook scientists also to predict governmental decisions affecting agriculture. No one has yet developed a satisfactory basis for making such predictions. It is doubtful if anyone will succeed in doing so. Indeed, it is doubtful if even those who are responsible for making such governmental decisions can far in advance accurately predict what their own decisions will be.

The increasingly direct role of Government in agricultural price making and marketing has introduced a new non-economic forecasting equation. This factor will continue to grow in relative importance as long as Government participates so directly in economic decision making at the farm level. However, the agricultural outlook scientists can take some consolation, perhaps a great deal of consolation, from the fact that in establishing programs and policies the governmental agencies necessarily utilize outlook information and more or less base their decisions and actions on such material.

The relationship between Government and agriculture has changed very substantially in the last two decades. Governmental aid to American agriculture has been more and more taking the form of direct aid to the individual farmer, which is extended in return for his compliance with some particular action program administered by the United States Department of Agriculture. This philosophy of aid to farmers has been developed, in the main, since the advent of the first Roosevelt Administration in 1933.

From the time of the creation of the Department of Agriculture in 1862 until 1933, the emphasis of the Department was largely on indirect assistance to individual farmers through aid and encouragement to the agricultural industry generally. Such aids took the form of research, education through the land grant college system including the agricultural extension system, and the regulatory and service functions of the Department of Agriculture with respect to both production and marketing.

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Under this system of governmental aid to the industry rather than to the individual, individual farmers were relatively free to make production and marketing decisions on their own farms in accordance with what they conceived to be sound management and husbandry principles. There was no "action program" prescribed by a central governmental agency with which they were urged (or forced) to comply.

Now millions of farmers receive checks directly from the Treasury for conservation practices, soil fertility building, loans on crops, sale of crops, and the like. This aid continued unabated even during the high wartime prices.

In earlier years, agricultural programs at the Federal level were largely bipartisan. The Congress may have divided geographically on issues involving agricultural subsidies, but it seldom divided politically. This was also true during a good share of the Roosevelt Administration. However, during the last half-dozen years farm programs have been dropped into the very middle of partisan politics. This further complicates the job of making reliable predictions covering the economic pattern of agriculture.

We need to return more decision making in agriculture to the individual farm manager on his own farm, and reduce the direct participation of Government in price making and marketing. One of the overriding factors in the current agricultural situation is the mountain of foodstuffs held by Commodity Credit Corporation. It is easily within the power of that body to influence farm commodity markets rather violently both in the short run and in the long run. Even so small a thing as an ill-timed remark by one of its officers may send the market up or down several cents. It is impossible to find in the United States a dozen men with sufficient wisdom to make without error the kind of decisions faced by the Board of Directors of CCC. These are decisions that should be made by millions of Americans, expressing preferences through a competitive price system, regulated by Government but not dominated by Government.

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The Agricultural Act of 1954, with its provision for flexible farm price supports, will move in the direction of decreasing governmental participation in price making and marketing. It will increase the role of management in decision making on our farms. We hope eventually to get the Government out of the food business, or at least substantially to reduce governmental activities in that area. This is needed for a dynamic and progressive agriculture. No agriculture, weighted down by controls, allotments, and quotas as it is today, can take full advantage of the marvelous scientific and technological developments that spring up anew every year. This can best be accomplished by a nation of free farmers, teaming up with a vigorous agricultural extension system which brings them reliable economic analysis upon which they may base independent decision making for their own individual operations.

A Big Job for the Extension Economist

The job of the extension outlook specialist is much broader than outlook information itself. We need to raise the level of economic literacy of farmers and non-farmers alike. No group in our society is in better position to do this than the extension economist. Thus, both a responsibility and a challenge rests on your shoulders.

In most States this challenge is being met by the development of outlook information in the agricultural colleges with the extension workers doing an effective job in getting that material to farmers. In some States, however, outlook work remains as a part time assignment for one or two staff members. This, of course, limits what can be done in developing the kind of agricultural outlook material needed locally and getting it out to farmers and non-farmers alike. Where such a situation exists, there clearly is an opportunity for improving the

service rendered to agriculture. Of course, various businesses, farm organizations, the press, and other groups do supply some outlook information to farmers. But essentially, the analysis and interpretation of economic facts, the development of outlook material that will meet local conditions and needs, and the dissemination and use of all this information to the benefit of farmers and others are functions that must be performed on a continuing basis in order to be most helpful. That is why the agricultural colleges and the extension workers have such a great responsibility to make sure that what they are doing is both adequate and effective in meeting their local farmers' needs for outlook information.

If we succeed in reducing the direct participation of government in agricultural price making and marketing and increasing the importance of individual management, it will be only because people like yourselves have helped masses of our population understand the economic precepts on which the private enterprise system is prompted.

This calls for extensive educational programs about agricultural policy, governmental relationships, subsidies, price supports, and other related items, both with our farm people and our city people. We must stress efficient agricultural production and marketing. This is the age of science and technology in agriculture. Output per man hour in agriculture has increased over three-fourths since 1940. It has increased nearly one and three-fourths times since 1910. This step-up in efficiency must continue at an even accelerated rate.

Our goal in agricultural research and extension for many decades has been to raise the level of farm incomes. On the whole we have been rather successful.

If agricultural efficiency continues to grow, as it should, some of our people necessarily will be faced with the prospect of having to move out of agriculture. They will have to find employment elsewhere. In areas where this is

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likely to arise, we need to provide certain assistance such as training to help young people and others make a living away from the farm. In that way we can help maintain a healthy condition in our economy and prevent rural sections from turning into slums. The rural slum is as bad as the city slum -- it's just not as obvious.

Our Nation cannot afford to use agriculture as an institutional burying ground where large numbers of our people and vast quantities of our resources become immobilized because we are not smart enough to utilize them more effectively elsewhere.

Agriculture, like any other major American industry, must maintain a considerable degree of flexibility and adaptability. Just like the modern business enterprise, it, too, must "adapt or die." The individual farmer, like the individual businessman, must constantly be alert to changing conditions and prompt in making the adjustments and changes in operations needed to make the most of situations that may arise.

If those of us working in agricultural education and extension can find effective ways to advance broad economic preception among our farm people, then an enlightened rural populace will insist upon a maximum amount of economic freedom for individual farmers. Then the individual family farm in America will continue to grow in science and in productivity relatively unburdened by the deadening influence of bureaucratic control and regulation. Then American agriculture will grow to levels yet undreamed of as a method of earning a decent livelihood, as a pleasant environment in which to live and to rear one's children, and as an opportunity to provide one's own security for his declining years.

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UNITED STATES DEPARTMENT OF AGRICULTURE
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Production Economics Research Branch

FARM COSTS 55B-1/2 1955

Summary of address prepared by Kenneth L. Bachman, Head, Production, Income, and Costs Section, for distribution at the 32d Annual Agricultural Outlook Conference, Washington, D. C., October 26, 1954

Perhaps we could well start where we did in the Farm Cost Situation by looking briefly at the overall farm cost situation. Then we might look at the situation with respect to machinery, labor, and other major items of production.

Farm production expenses reached their peak in 1952. This peak of more than \$23 billion was nearly four times the prewar level. Increases in prices paid by farmers, in use of machinery, fertilizer and similar items, and in output of farm products are all involved in the rapid growth of farm production expenses from 1940 to 1952.

Particularly during the latter part of the period, the increased use of industrial items in farm production has been of major importance. Since 1947, for example, the number of tractors on farms has increased by nearly 2 million, or more than the total increase from 1929 to 1946.

From the peak in 1952, farm operating expenses declined about 5 percent in 1953. They declined about 3 percent in 1954. The outlook for next year is chiefly "more of the same." In other words, another slight downward adjustment in farm operating expenses appears to be in the offing.

You will note that we talk in terms of small changes. If we look at the situation in more detail, the reasons become more apparent.

The bulk of our expenses now go for factory-produced items used in farm production. About 60 percent of all production expenses are for machinery, gasoline, building materials, fertilizer, electricity, and other manufactured goods and services used in farm production. Labor accounts for another 15 percent. Feed, seed, and livestock make up the rest.

When we look at cost rates we find that the prices of industrial items are slow to change. They are especially slow to change downward. Even during the war the increase in prices paid for machinery and fertilizer rose only 4 to 5 percent a year. Since World War II prices paid for these items have generally moved upward, but the annual change in prices has been quite small.

In more specific terms, you will note that the cost of materials for a poultry house or a rod of fence have changed very little since 1952. We don't expect prices of such items to change much in 1955.

1/ Nearly all the charts used in this talk can be found in the Farm Cost Situation.

In the case of farm machinery, we know that in many instances dealers have made substantial price concessions on some items in the last year. Some of this was going on in 1953 also. Concessions will no doubt continue to be made in 1954, but they are not likely to be made on any larger scale. Prices of a few items, such as tires, may increase a little.

Farm real estate taxes per acre have been going up for a number of years. This trend will probably continue.

The supply of and the prices for farm labor eased slightly in 1954. Probably they will continue easier in 1955. Wages went down 1 percent this year. They may go down a little again next year.

It used to be an accepted belief that farm wages closely followed farm income. This relationship has not been so close in the last few years. It may be that with the growth in industry, off-farm employment opportunities outside agriculture will have more to do with farm wage rates now than they did a decade or so ago.

The drop in prices paid for feed, seed, and livestock occurred largely in 1952 and 1953. The drop in these prices was a primary source of the reduction made by farmers last year in total operating expenses. The prices of these items in 1954 have been relatively stable.

Price changes next year will probably be small. Feed prices probably will average about the same in 1955. Feeder cattle, baby chicks, and other kinds of livestock that farmers buy may be down a little. Seeds may also be off a little, but this may not be true of some of the grass and legume seeds.

In summary, not much change in cost rates appears likely in 1955.

Farm operating expenses depend to a considerable extent on the quantities of fuel, fertilizer, and other items of production used. From the standpoint of quantities used, the prospective situation for 1955 also appears to be one of little change.

Farmers will probably use more fertilizer, but they will probably buy about the same quantities of machinery in 1955 as they did in 1954. Whether they use more tractor fuels, pesticides, baler twine, and similar items will depend to some extent on the weather and the use farmers make of land taken out of cotton, wheat, and other crops for which acreage allotments or marketing quotas will be in effect.

The quantities of machinery and building materials that farmers bought declined materially from 1953 to 1954. The 1954 factory production of farm machinery, for example, was about a third below that of 1951. But in appraising farm-production expenses this raises a problem of accounting. Machinery, for example, must be replaced. A farmer can put off purchases for a year or two, but the annual loss in value is, in a sense, a cost for that year.

Expenditures made for certain items this year such as machinery, operating costs, and marketing charges were reduced in 1954. The drought and the drop in acreages of cotton and wheat were factors in this situation. Quantities

of labor, feed, and other items used in production changed relatively little from 1953 to 1954.

Now let's take a summary look at farm operating expenses next year. Farm cost rates probably will be about the same as they have been this year. Requirements of commercial agriculture are expected to cause total production expenses to remain high in 1955. Lower incomes have encouraged farmers to watch their expenditures carefully. But many who plan to adjust their farm operations to bring about lower costs over a period of years will need to continue reasonably high levels of investment for the next few years. In other cases, maintenance of the present plant will require a high level of expenditures.

Further reductions in wheat and cotton acreages will tend to reduce or to keep expenditures down next year. But this will not be a net saving. Many farm production expenses are relatively fixed. Further, the use of diverted acreage will frequently entail comparable expenses.

Prospective cost changes for the coming year are always of interest. But it should be recognized that, for most farmers, this is frequently not the nub of the question. Farmers who buy machinery, for example, are thinking about the next 5 to 10 years. Decisions concerning the hiring of labor, especially year-round workers, frequently are knit into a production plan which extends over a number of years. The past is also important. The changes in farm practices often lag behind changes in current economic conditions. Consequently, the interest of farmers frequently centers on (1) how relationships between cost rates have changed over a period of years, (2) whether these relations among costs are likely to change back, and (3) what adjustments to technological developments appear desirable.

The four things that I would like to emphasize by way of a general interpretation of the farm cost situation in its longer-term perspective are:

1.- In farm planning and development work we must keep the present-day cost structure in mind.

In this connection your attention is called to the chart showing the changes in major selected items of cost during and since World War II. Relationships among the cost rates of major items used in production have changed considerably during and since the war. Farm wage rates, for example, are now more than four times the 1935-39 level, while fertilizer and motor supplies are only 50 percent above the prewar level.

The big changes in cost rates came during World War II. By 1947 wage rates were about $3\frac{1}{2}$ times the 1935-39 level. Since that time the changes in major cost items have been relatively small. Compared with the 1947-49 average, the price of feed in 1954 is a little lower, the price of fertilizer is about the same, and prices of power and machinery have increased by about a fourth. Significant year-to-year variations have been limited largely to products, such as feed and livestock, that are largely produced by other farmers.

2.- Changes in cost rates and in technology have favored increased use of factory-produced inputs. During the next 5 to 10 years this trend seems likely to continue.

Since the beginning of World War II factory-produced items used in production have increased by nearly three-fourths for the United States as a whole. Machinery, motor fuel and supplies, fertilizer, and electricity are among the things that farmers now use in larger quantities.

These factory-produced inputs now represent a considerably higher proportion of total inputs or costs on most types of farms than they did before the war. On wheat-small grain farms in the northern Plains, for example, such inputs represented less than 30 percent of the total in 1937-41; today they represent nearly 45 percent.

Farm-produced items used in production, such as livestock, feed, and seed, increased also. But the combined increase in these inputs has been more than offset by the decrease in hired labor. As a result, the increase in the ratio of all purchased inputs to total inputs has been smaller.

As mentioned earlier, prospective changes in prices paid for various items used in production are not expected to change much next year. Some further adjustments are probable during the next few years, but a return to prewar relationships among cost rates appears to be unlikely. In view of the prospective cost rates and the continued advancements in technology, trends toward the use of more nonfarm inputs apparently are likely to continue during the next 5 to 10 years.

Increased output per man-hour has been a major result of the trends toward increased use of nonfarm inputs. If labor productivity in agriculture and our economy generally continues to expand, larger quantities of nonfarm inputs probably will be used by farmers.

3.- The structure of farm costs may continue to become more rigid.

Year-to-year variations in prices paid for goods and services from nonfarm sources are relatively small. Costs of farm-produced inputs and to some extent hired labor are more variable. They tend to fluctuate more with prices received by farmers. With a continued upward trend in the use of production items from nonfarm sources, the structure of total farm operating costs is likely to become less flexible. This may mean that the break-even point for covering production expenses may be higher in the future than in the past. As mentioned earlier, however, the investment nature of machinery and certain other items of production will permit farmers to reduce cash expenditures for a few years by putting off purchases of new machinery and equipment.

4.- Prospects are likely to vary greatly among areas and commodities because of particular price-cost relationships and differences in technological developments.

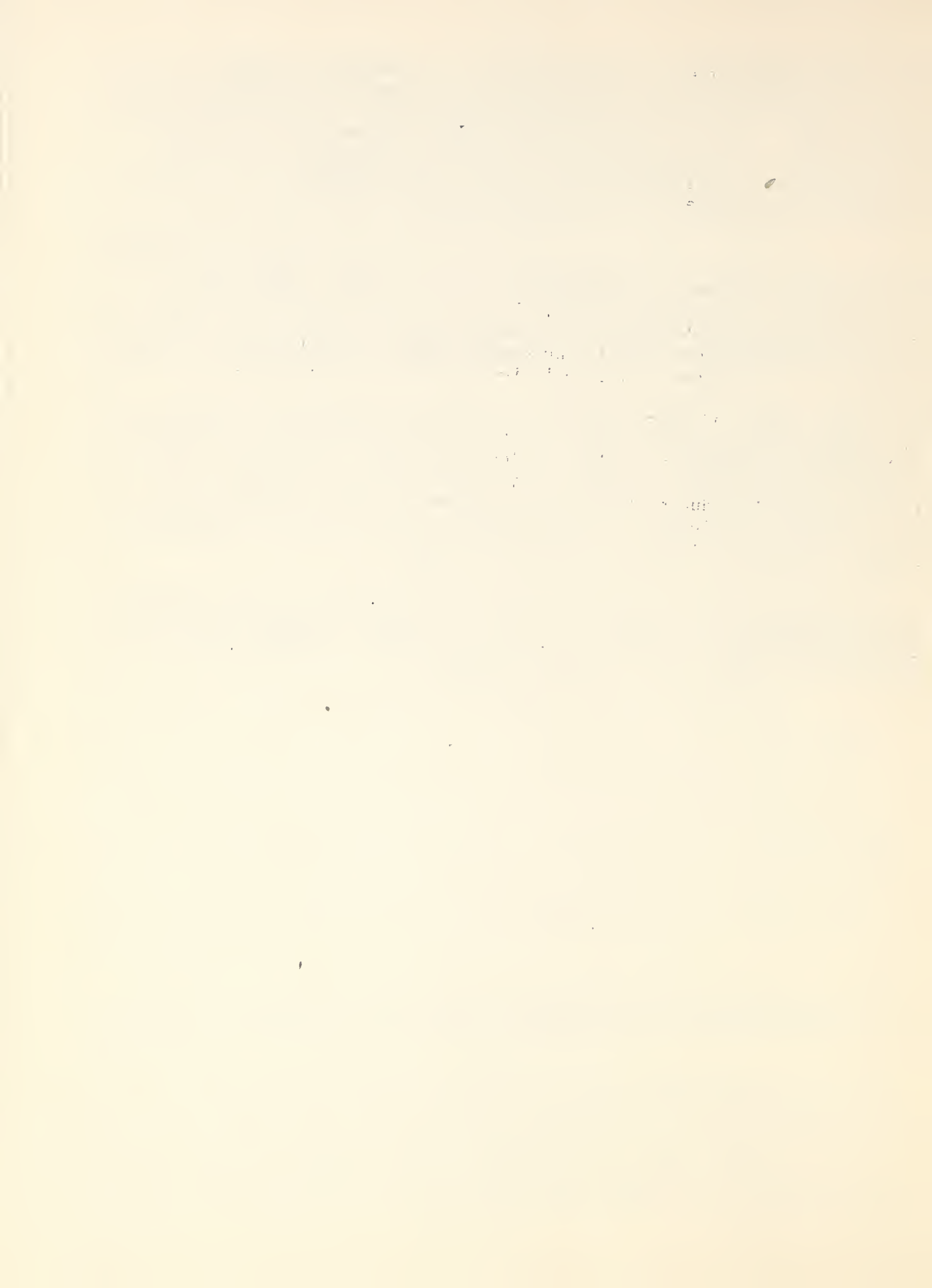
From the viewpoint of the individual farmer a major hope for maintaining or increasing incomes is more efficient and lower cost production in the period ahead. The particular items of cost that concern farmers vary greatly by area and by type of farm. On wheat-livestock farms, for example, power and machinery make up nearly two-thirds of the total operating expenses. In northeastern dairy areas feed accounts for more than a third of production expenses.

Similarly, opportunities for reducing costs vary greatly from area to area. On these wheat-livestock farms adjustments in use of farm machinery and in use of diverted acres can materially affect the cost per unit of production on many farms. But the nature of these changes will mean that costs will change slowly. In the northeastern dairy area opportunities for reducing costs center to a considerable extent around making better use of improved technological developments in growing and harvesting feed and in use of labor.

Although opportunities vary among areas, it will be noted that in each of the four areas selected for illustration there has been a trend toward substitution of machinery for labor. In the spring wheat area the rapid changes came in the late thirties and early forties. In the dairy areas the change has been more recent. An upward trend has existed in the Piedmont cotton areas, but present investments in machinery are still low.

The varying nature of improvements in farming are reflected in varying increases in efficiency of production of different commodities. Efficiency in production of crops has nearly doubled since 1940. Efficiency in production of livestock has increased by only about 50 percent. Recent changes in efficiency in producing feed grains have been rapid - doubling since 1947. Increased efficiency in production of hay has been much smaller. Looking toward the future, these changes serve to point out areas in which further research and extension work may be needed.

In all areas most current changes in farm production practices will affect production costs for a number of years. With increased use of power and machinery and other technology requiring considerable investment, long-range farm planning becomes more and more important.



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✓ FARM FAMILY LIVING OUTLOOK ✓

Talk by Gertrude S. Weiss, Assistant Chief, Home Economics Research Branch, Agricultural Research Service, U.S. Department of Agriculture at the 32nd Annual Agricultural Outlook Conference, Washington 25, D. C., Tuesday, October 26, 1954

This is the third year in which the average overall cost of goods and services consumers buy has been little different from what it was the year before. Prices Paid by Farmers for Commodities Used in Family Living are now 1 percent above last year (September). The Consumer Price Index, which measures living costs for city families, is the same as it was a year ago (August). Over the 3 years these repeated reports of little or no change have added up to a slight upward drift. This has averaged out at the rate of about 1 percent a year.

Families whose incomes have remained the same over this period could be expected to make adjustments to increased living costs at the rate of 1 percent a year without great difficulty. Those with declining incomes have been more troubled by the upward drift. But this rate of increase is far from the kind that we have learned to dread on the basis of our experiences of the past two decades. During 1946, for example, the Consumer Price Index increased 18 percent. The rate of 1 percent a year for the past 3 years seems like stability, compared with that increase.

A second characteristic of the past 3 years is that prices of many consumer goods actually have been moving downward against the average slight upward trend. The relative stability of the price indexes for goods and services purchased by farm and urban families, therefore, is a result of the balancing off of increasing and decreasing prices.

In addition to differences in the direction and the rate of change among the different goods and services, there have also been considerable differences in price changes in the different parts of the country, particularly for housing, medical care, personal care, and recreation.

The result is that, while the overall U. S. average shows little change, families have different experiences, depending on where they live and the goods and services that are important in their budgets.

The two charts 1/ show the movements of several portions of the two most widely used measures--Prices Paid by Farmers for Family Living Commodities of the Agricultural Marketing Service and the Consumer Price Index of the Department of Labor. Both indexes are more complete than the charts show.

1/ Agriculture Outlook Charts 1955. pp. 34 and 35.

The movement of the food line of the Consumer Price Index, up in the late summer and down in the late winter, is largely seasonal. Such seasonal shifts in indexes overstate the fluctuations in food costs, of course, since families tend to increase their purchases of the cheapest food items available in each season instead of buying the same fixed quantities the year round. This may tend to smooth out the seasonal fluctuations in food expenditures a bit. So the net conclusion is of stable food costs, in spite of the seasonal price shifts you see on the chart.

Some trends in food prices should be noted. Meat as a group is lower now than 2 years ago because lower prices for beef, chicken, and other meat items have more than compensated for higher pork prices. Dairy products are lower in price also, with lower butter prices and slight but steady decreases in average prices paid by consumers for both store and delivered milk. Potatoes have been cheaper, although price changes over the past 2 years for fruits and other vegetables have been mixed. Important foods for which fairly steady price increases during the past 2 years should be noted are bread, lard, and coffee. The net effect is a fairly steady price for food as a total over the 3-year period (except for the seasonal).

The apparel line on the chart shows a steady downward drift. This has been true for men's, women's, and children's clothing. Most of the items of clothing priced for this index were cheaper this summer than they were 2 years ago. Shoes and rubbers are the chief exception, with average increases of 2 percent.

The rent and medical care indexes are important chiefly because they show the continuing upward movement of service costs. If we look back into the 1940 period we find that the increase is a delayed reaction--rents and service prices increased then much less than did prices for commodities. The rent item is not of direct personal concern to most farm families. But the increasing cost of medical services is of great importance to them. Many other service prices would show the same trends, if they were charted separately.

The second chart is from the Index of Prices Paid by Farmers for Commodities Used in Family Living. The food and tobacco line shows the same seasonal swings around a level generally stable since 1951. Prices of housefurnishings have been going down--but only by a very small amount.

Prices of some kinds of equipment have decreased--radios, refrigerators, and washing machines are examples. These price changes, however, are difficult to interpret because the equipment has become more elaborate over the years. Price decreases for television sets (although not in this index and less important in rural than urban spending) have attracted attention.

The index for building materials has changed very little over the past 2 years.

Automobile prices, as reported in this price index, have been a little lower this summer and fall than they were last year. As the chart shows, the price direction for autos and supplies has been upward since 1950, and even recent small decreases have not brought this line back to the 1950 level.

Looking ahead, more of the same general stability seems most likely. Food prices are likely to average about the same or a little lower, but service costs probably will continue up and prices of clothing and household textiles may be a little higher. However, even if the overall average changes little there are likely, as during the past few years, to be divergent trends.

Some evidence of lower food costs is seen in recent price decreases for coffee, pork, and lard. The Agricultural Marketing Service reports ample supplies of most important foods. However, with marketing charges not expected to decrease, retail food prices next year are expected to average close to this year.

For clothing, the question is how much longer this slow downward drift will continue. Although retail prices of clothing have been decreasing, the costs of manufacturing have, on the whole, not decreased. Prices of some unfinished materials have recently increased, cotton and synthetic fabrics, for example. One manufacturer of work clothing has announced higher prices effective this month. Inventories of clothing and materials used in clothing, particularly at the manufacturing level, are low enough that stocks on hand would not seem to call for continuing lower prices. Yet the wholesale and catalogue prices now published suggest that if there is a marked upturn in retail clothing prices it will not be until next spring.

Judged by total expenditures, consumers seem to be putting a lower value on clothing now than formerly. The sum now spent for clothing, accessories, and shoes comes to only 8 percent of total consumption expenditures--compared with 14 percent in late war years and 10 percent during the depression years of the 1930's. Not only is the percentage of the total down, but it appears that the actual per capita volume is down (insofar as this can be measured by expressing consumer expenditures in current dollars). Several theories are suggested: That our culture provides other more appealing kinds of conspicuous consumption--automobiles for example; that present-day ways of living and using leisure time call for less expensive clothing; and possibly in part that technological improvements have made satisfactory clothing available for a decreasing sum. A contributing factor is the greater concentration of the population in the youngest and oldest age groups at the present time, groups that usually spend less for clothing than do young adults.

These are doubtless sufficient reasons for expecting no appreciable increase in the demand for clothing within the next year. But current low inventories and increased fabric prices suggest that clothing prices cannot long continue to drift downward.

In household furnishings and equipment, possibilities for lower prices in the year ahead are less now than they were a year ago. Household textile prices may even increase slightly. Consumer spending for furniture and household equipment held up well for the first half of 1954, and durable goods inventories were reduced. This situation makes a climate less conducive to lower prices than we had last year at this time.

Although discounts in the sale of consumer durable goods have been very much in the news, discount houses have sold in large volume in only six of the large cities. If the impact of discount houses on prices were limited entirely to these cities, we would not expect discount merchandizing to be important to farm families. But as the practice of departing from a fixed retail price becomes more widespread, lower prices for all consumers are likely. Often these lower prices are accompanied by different arrangements for handling manufacturer's guarantees and services. Or delivery charges are added. Probably the most important point for consumers to keep in mind is the need to consider price in terms of the total purchase arrangements.

The situation for automobiles is much like that for other consumer durables. Inventory stocks are less than they were a year ago. Consumer expenditures for automobiles have remained high, and income prospects seem good enough to support a continued volume of sales under the current price situation.

As to housing costs, there seems little chance of a decline in building materials. Construction has held at such high levels and seems likely to continue high enough that material prices would change little.

The general increase in service costs over the past few years seems likely to continue. Most summaries of consumer expenditures that show services include urban rents, which, since we are talking primarily about farm family living costs, we should not consider. The remaining service items--medical care, household service, and personal care have more in common in that they involve a large element of individual personal services. Looking back to 1938, some of these services have shown especially large price increases. Domestic service, for example, costs more than three times as much as it did then. Rates for hospital service are also three times as costly as they were then. Laundry rates and beauty shop services have nearly doubled; hair cuts are up a little more. This is not surprising during a period of good employment opportunities--especially for women. When other jobs are plentiful, it is not surprising that people prefer not to work in personal service occupations, where wages were previously lower and have not yet fully caught up. In short, in a culture in which we put a high value on human labor, we cannot expect to have people do our domestic and personal chores for us at low cost.

However, personal services have never been very important in this country. Even in 1900, a gone by golden age in which many people think every middle-class family had domestic service, there was one domestic worker for every 13 private households. Now the ratio is one for every 25 households.

Although we have less in the way of personal service, and in terms of price prospects, are likely to get less for the money spent, service enters the household economy in other ways. Service is increasingly purchased with food and clothing, although we do not know the share of these prices that could be assigned to added services. We also have service substitutes in household equipment. It is clear that the household can get needed domestic service more cheaply by buying it on a mass production than on a personal-service basis.

From the family living angle, likely changes in living costs are not enough to raise serious questions. Over the entire range of consumer goods, plentiful and varied supplies are evident. At this "outlook" season it seems more timely to emphasize long-run family plans and values than to calculate purchases in terms of short-run change in prices of particular goods.

The economic aspect of home management ranks high in the listing of the kinds of help people are seeking and the subjects they wish to study, both in school and in adult education programs. Because this kind of long-run planning involves personal values it is a difficult subject on which to give assistance.

A good plan for managing family funds is necessarily a tailor-made plan. A plan for one family seldom fits another exactly. Thus the emphasis is shifted from the plan itself to the process of planning.

In helping families learn how to plan, information about the outlook for prices and supplies of consumer goods may be helpful in arousing interest. But, with the prospect of little or no change in average living costs, this information is of less importance this year in overall plans for family spending. It is far more important to have information about the relative costs and value to the families of alternative ways of spending family funds. Some of this information needs to be for a particular locality. For example, what kind of a water system is best suited to this farm, what will it cost to install, and what is its value to this farm family? Other questions are more general--for example, the water consumption and performance of different types of washing machines, the efficiency of various kitchen and laundry arrangements, and the economics of making vs. buying various products.

In planning this conference Director Ferguson suggested that we might make the "Toolshed" a theme of our sessions and show the tools that we have found most effective in getting ideas across. In the area of the economics of home management, we have found that figures on family expenditures are one of the most effective tools. These should be presented not as a norm, but rather as something to discuss and an illustration of the process of tailoring a spending plan for a family. In using these in discussions, such questions can be raised as: Do we know what our family's pattern is? Where does it differ? Is our pattern of spending getting us what we want?

We have prepared such a tool to use today. Although the finished product may look simple, it was not easy to make. Ideally, we should have had recent information on farm family spending from a large sample of the population. Having had no such survey since 1935-36, the data obtained for Illinois in 1946 were used, with adjustments for changes since 1946 derived from the account data published by the University of Illinois and other sources on consumer expenditures. While these distributions of family expenditures could not be considered regional averages, we believe that they would apply to many families in the North Central region.

The two patterns of family spending that we have prepared are for families with two children under 12, relatively young families but past the period of setting up the household. Similar patterns for families at other stages in the life cycle and in other parts of the country would be useful.

The first family is assumed to be spending \$2,000 a year, at 1954 price levels. We know that the incomes of families who spend \$2,000 a year for living vary a great deal. 2/ Farm income is likely to change from 1 year to the next and families do not immediately adjust their spending to the income change. Moreover, families differ in their decisions whether to spend money for living or put it into the farm business or other kinds of investment. On the basis of such information as we have, we estimate that about half of the farm families in the Northern and Western States are spending this sum or less, and about half are spending more. So the spending pattern we are about to show would be of interest to a middle-income group.

We estimate that this family is spending about \$580 for food during the year. In addition, this family produces food valued (at retail prices) at about \$780. The total value of food consumed is \$1,360, or \$26 a week.

Because we are relying to such an extent on information for Illinois, the estimate of home production is higher than for the North Central region as a whole, which includes some States in which less food is produced on the home farm. 3/ This high money value is chiefly from animal products--meat and milk. For families with less food from home production this \$580 for purchased food would be too little. A larger block for purchased food would, of course, leave less of the \$2,000 for other things.

We cannot say whether this sum is "enough" or "too much" for food. We do know that the average farm diet worth \$1,360 provides the recommended amounts of the nutrients usually considered in dietary evaluations. We also know that many people who have food worth this much have good diets but that others make such poor selections that their diets are not adequate. 4/

The next block, for the house, its operation, furnishing, and equipment is nearly as large--\$470. Most of the part for housing is household operation expense, because only the upkeep of the house is counted here. In the survey on which this was based, the money spent for housing improvement was classed as an investment, so does not appear in this account. Such investments would, of course, have a prominent part in a plan tailor-made for a family.

2/ Farm Family Spending and Saving in Illinois. U. S. Department of Agriculture. Agriculture Information Bulletin No. 101. p. 62.

3/ Agricultural Outlook Charts 1955. p. 36.

4/ Ibid p. 38.

The \$270 household operation costs are largely fuel, light, refrigeration, telephone, and household supplies. These costs go with the housing improvements and modern housekeeping equipment that have increasingly become part of the farm family's standard of living. Once undertaken, they are mostly fixed costs.

Clothing in this pattern comes to \$260. This is an item that we know would be larger if the children in this family were older.

The next item, \$250 for transportation, includes the share of the automobile charged to family use and bus, railroad, and other travel expenses. Because in average figures of this kind automobile purchases are represented at the rate of purchase of the group, this block covers replacement as well as operating costs.

The \$440 remaining of the \$2,000 to be spent in this pattern is for medical care, and all the other miscellaneous items that a spending plan must cover. The \$140 for medical care is an average figure which would not cover the costs of serious illness but would be more than a family would spend in years when there was no major illness. In actual practice families may take care of big medical bills out of a reserve built up in years when expenses are low or through insurance, or they may adjust some of their other expenditures. Outlays for major pieces of household equipment, for improvements, and for the purchase of a new car lend themselves most readily to this kind of adjustment.

The remaining \$300 in this block is for recreation expenditures, education, personal care, and gifts and welfare contributions.

The second half of the chart is a pattern for a family of the same size with more money to spend. Total expenditures come to \$3,000 a year, at 1954 prices.

This pattern would be useful only with higher income groups. We estimate that a small proportion of the farm families in the Northern and Western States are spending this much or more.

The \$790 food expenditure assumes an average value of home-produced food of \$870. On farms of the type of those in Illinois, home production that provides food worth this much is found even at income levels where as much as \$3,000 is spent for living. Home food production at this economic level provides a smaller proportion of the total food supply than for the family at the lower level, but still more than half.

In this pattern, the total retail value of food consumed, counting that raised on the home farm as well as purchased, comes to \$1,660 a year, or \$32 a week. This should provide a good diet and ample variety for a family of this size.

The housing block in this pattern comes to \$670. The cost of operating the household and the sums spent on furnishings and equipment are about 40 percent more than in the pattern of lower spending.

Clothing at this spending level is estimated at \$350. This is substantially more than at the lower level of spending, but below the averages reported for city families in most of the cities in this region carried in the Bureau of Labor Statistics 1950 Survey of Consumer Expenditures. 5/

Transportation is up to \$510, and becomes, in this pattern of spending, the next largest block after food and housing. This is the family share of the cost of operating the automobile, plus bus, railroad, and airplane travel. The estimate may be a little high, but we know that farm people are putting a high value on trips for shopping, social and community affairs, education, and vacations. Further evidence of large sums spent for transportation comes from the Bureau of Labor Statistics survey which showed that transportation expenditures were especially high in small cities in the North Central and Western States. 5/ These families in small cities, like the farm families in this second pattern, spent considerably more for transportation than on their clothing. This has been true for the country as a whole since 1950.

The final block in this spending pattern that adds up to \$3,000 covers medical care, at a more liberal figure of \$190, and "other" which includes \$160 for gifts and welfare and \$330 for recreation, education, and personal care expenses.

These patterns have not included savings, because we do not have the basis for estimating current relationships of spending, saving, and farm business expense. In tailoring its own plan a family would obviously consider its savings program. Life insurance should also be mentioned, as it ranks in many family accounting plans midway between a current expense and a saving. The estimates (taking account of the proportion of farm families that have life insurance) are \$70 and \$180 for the two spending levels given here. Since information is readily available on the cost of different kinds of insurance, the sum to be allotted could be worked out in terms of the coverage wanted, rather than in terms of a pattern of average expenditures.

Adding up its probable family living costs like this is the first step in home planning. This kind of adding up process also shows us how much these costs come to at current prices and today's standards of living.

5/ Family Income, Expenditures, and Savings in 1950. U. S. Department of Labor Bulletin No. 1097. June 1953.

ESTIMATED DISTRIBUTION OF EXPENDITURES AND HOME FOOD PRODUCTION,

FARM FAMILIES AT TWO LEVELS OF SPENDING, 1954 ^{1/}

1/ Family consisting of husband, wife, and 2 children under 12 years of age

Item	Expenditures and value of home production	
Total consumption expenditures	\$2,000	\$3,000
Food.....	580	790
Housing.....	30	60
Household operation.....	270	370
Furnishings and equipment.....	170	240
Clothing.....	260	350
Transportation.....	250	510
Medical care.....	140	190
Personal care.....	50	80
Gifts and contributions.....	80	160
All others.....	170	250
Retail value of food consumed...	1,360	1,660
Purchased.....	580	790
Home-produced.....	780	870

^{1/} For families living in the North Central States in areas with high dollar value of home-produced food. The distributions are derived from Farm Family Spending and Saving in Illinois (Agriculture Information Bulletin No. 101) adjusted for changes since 1946 in the pattern of consumption determined chiefly on the basis of data from summaries of farm home accounts submitted to the University of Illinois and the reports of the U. S. Department of Commerce on consumer income and expenditures. Adjustments for family type were derived from the Consumer Purchases Study.

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UNITED STATES DEPARTMENT OF AGRICULTURE
Production Economics Research Branch
Agricultural Research Service

THE FARM FINANCIAL OUTLOOK

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Balance Sheet of Agriculture

Total assets of American agriculture, including the financial assets owned by farmers, amounted to \$159.8 billion on January 1, 1954. This was \$6.9 billion, or about 4 percent, less than a year earlier. The value of these assets at the beginning of the year, however, was higher than in any other year except 1952 and 1953. Farm assets reached a peak value of \$170 billion at the beginning of 1952. The decline since that date has been due entirely to decreases of \$7.7 billion in the value of livestock and \$6.1 billion in the value of real estate. All other major asset items showed increases during this period.

In retrospect, it appears that the peak years 1952 and 1953 represented an abnormal bulge in asset values engendered by the Korean crisis. Even at the time, it was clearly recognized that beef cattle prices were abnormally high in relation to prices of other farm commodities and that a subsequent downward readjustment probably would occur. Also, farmland values were known to have increased more rapidly in relation to the rise in farm commodity prices than had been customary in previous upswings of the price cycle. For the time being, readjustments in prices both for beef cattle and farmland appear to have run their course. The outlook then is that although assets will be slightly lower at the beginning of 1955 than a year earlier, subsequent changes in 1955 are not likely to be large in either direction (table 1).

Farm Real Estate

The value of farm real estate (land and buildings) on January 1, 1955 is expected to be about 3 percent less than a year earlier. The year 1954 is the third consecutive one in which the aggregate value of this asset will have declined. The total decline for the 3 years would be about 9 percent.

Farm real estate values remained essentially unchanged in three-fourths of the States between March 1 and July 1, 1954. Small increases occurred in a few States, mainly in the eastern part of the country, but these were offset by similar declines in several Mountain States. Values as of July 1 averaged 4 percent below a year earlier and 7 percent below the post-Korean peak in July 1952. Largest declines since that peak have been in the Mountain States and in States in the drought area.

Table 1.- Balance sheet of agriculture, January 1, 1954 and tentative estimates for January 1, 1955

Item	January 1, 1954	Estimated for January 1, 1955	Percentage change
	<u>Billion dollars</u>	<u>Billion dollars</u>	<u>Percent</u>
ASSETS			
Physical assets:			
Real estate-----	87.6	85.0	-3.0
Non-real-estate-----	50.3	49.5	-1.6
Financial assets-----	21.9	22.0	+0.5
Total-----	159.8	156.5	-2.1
CLAIMS			
Liabilities:			
Real estate debt-----	7.7	8.2	+6.5
Non-real-estate debt-----			
Loans held and guaran- teed by Commodity Credit Corporation---	2.4	2.1	-12.5
Other-----	7.0	6.9	-1.4
Total liabilities-----	17.1	17.2	+0.6
Equities-----	142.7	139.3	-2.4

Tentative indications from an October survey of farm real estate dealers and others are that prices have weakened slightly since midyear and sales activity has been reduced further, particularly in the drought areas. Three years of dry weather and reduced farm output in parts of the present drought areas have depleted the financial reserves of many potential buyers and have temporarily discouraged the purchase of land. Despite these conditions, local observers noted only a few distress transfers and only a slight reduction in prices paid for the better grades of land.

As in 1953, a substantial proportion of prospective buyers require more credit to finance the purchase of farms than can be obtained under the present loan standards of many lenders. Although interest rates on farm mortgages have been reduced since midyear and maximum loan limits per acre have been increased in the better land areas of the Midwest, comparable easing of credit has occurred in only a few areas elsewhere. Thus, difficulties in obtaining financing for the typical prospective buyer are likely to continue as a factor limiting sales activity in many parts of the country unless mortgage lending policies are further liberalized.

Relatively stable prices of farm commodities thus far in 1954, in contrast to a steady decline from August 1952 through November 1953, and little change in overall economic conditions, were probably the major factors in sustaining land values during the first half of this year. However, the downward drift in values that began about mid-1952 apparently has been resumed in recent months and it seems likely to continue into 1955. It may be more pronounced in areas subject to acreage restrictions on cotton and wheat than elsewhere.

Liquid Financial Assets

The total amount of liquid financial assets owned by farmers on January 1, 1955, is expected to be \$19.0 billion, about the same as a year earlier. However, their current funds - currency and demand deposits - are expected to decline from \$10.2 billion to about \$9.8 billion. Time deposits and United States savings bonds owned by farmers are expected to increase an offsetting \$0.4 billion, from the \$8.8 billion owned at the beginning of 1954, to about \$9.2 billion on January 1, 1955.

Data for the first 8 months of 1954 indicate that farmers continue to increase their holdings of time deposits and United States savings bonds. The increase in farmers' holdings of these assets in 1953 and 1954, a period when farm income was falling and many areas were severely affected by drought, apparently was made possible by reductions in expenditures. Farm expenditures for machinery, livestock, and farm improvements have been reduced considerably and many farmers particularly those in drought areas have also cut down on family living expenditures. These reductions have been made partly because farm income has fallen and partly because earlier expenditures had provided much of the machinery, livestock, and improvements that farmers needed or desired. Also, after conditions became less favorable in agriculture, many farmers felt that they needed larger financial reserves.

During 1955 we are expecting little overall change in farmers' liquid assets; probably time deposits and savings bonds will again increase and currency and demand deposits may continue to decline slightly.

Farm-Mortgage Debt

The outlook is for a further increase in farm-mortgage debt and in the amount of mortgage interest paid by farmers in 1955. Farm-mortgage debt totaled \$7.7 billion at the beginning of 1954. This was 7 percent higher than a year earlier, and 61 percent above the amount on January 1, 1946. During 1954 the debt continued to increase, and by January 1, 1955, it will probably amount to about \$8.2 billion. Demand for farm-mortgage credit is expected to continue strong in 1955 also, although many farmers are more reluctant to increase their debts. All or part of the proceeds of a substantial number of farm-mortgage loans made in recent years were to be used to refinance existing debts of farmers. Loan commitments for the second quarter of 1954 for 13 life insurance companies active in farm-mortgage lending showed the following percentage distribution according

to purpose: (1) Purchase of real estate, 31 percent; (2) refinancing of real estate mortgages and sales contracts, 35 percent; (3) refinancing of non-real-estate debt, 17 percent; (4) repairs and improvements for land and buildings, 8 percent; and (5) other purposes, 9 percent.

Use of farm-mortgage loans to refinance non-real-estate debt generally appears to have leveled off this year although it still continues in fairly substantial volume. Some farmers have found that their non-real-estate debt was fairly heavy in view of reduced net incomes; they have shifted the debt to real estate mortgages to reduce their annual payments. In the last 2 years many farmers have completed adjustment of their financing to a lower level of prices and incomes, and it may be that use of farm-mortgage loans to refinance short-term debt will not increase in 1955.

Farm-mortgage money continued in good supply this year, and competition among lenders for loans increased somewhat in the better farming areas and for unusually good loans in all areas. Interest rates on farm mortgages began to soften about mid-1954. This reflected the earlier reduction in interest yields on Government and corporate securities. Several life insurance companies have reduced their minimum interest rates on choice new farm-mortgage loans by one-half of 1 percent. It is expected that other companies will follow if interest yields on Government and corporate securities do not increase. In addition, some companies have raised per acre loan limits in the better farming areas.

Mortgage interest rates charged by commercial banks are largely unchanged from last year and no material change is expected next year. The cost of new direct farm-ownership loans of the Farmers Home Administration was raised from 4 to $4\frac{1}{2}$ percent in September 1954. Interest rates on mortgage loans of Federal land banks are unchanged from last year, varying among districts from 4 to 5 percent.

Principal repayments on farm mortgages (excluding repayments through refinancing) are apparently at a somewhat slower rate so far this year than they were in 1953, but delinquencies continue at a low level. Mortgage payments generally are handled satisfactorily from the viewpoint of lenders, but there is little doubt that in many cases farmers are finding scheduled payments burdensome. This is particularly true in areas where drought has combined with lower prices to reduce farm income. Younger farmers, who frequently have smaller equities in their real estate, larger mortgages, and large amounts of non-real-estate debt, are more likely to be in difficulty.

Non-Real-Estate Debt

Non-real estate debt (excluding price-support loans) declined sharply last fall and winter. But the decline slowed up this last spring and summer. There are some indications that new borrowing is picking up this fall. It is tentatively estimated that total non-real-estate debt at the beginning of 1955 will be about \$6.9 billion, or about the same as on January 1, 1954. The debt on January 1, 1955, however, will be substantially lower than the \$7.6 billion outstanding at the beginning of 1953.

The sharp decline in debt in 1953 was largely related to the widespread price declines which encouraged caution in the use of credit. It was particularly attributable to the livestock situation, which resulted in liquidation of loans and reduced new borrowings. The reduced acreages of cotton and wheat resulted in less borrowing in early 1954 than in other recent years for seasonal crop production. Some of the forces that tended to reduce short-term debt still exist but prices of cattle have stabilized. Both borrowers and lenders appear to have more confidence now than last fall in the agricultural situation. Increased borrowing has been necessary in some instances to cope with the squeeze of lower incomes and fixed costs. In several areas, increased carryovers and emergency lending by the Government have tended to cause debt to expand.

In 1955, the non-real-estate debt situation of farmers, as a whole, may not differ much from that in 1954. If crop acreages are further restricted, production costs - and non-real-estate credit - may be reduced. Amounts borrowed for consumption and capital expenditures will also remain relatively small in sections in which drought or low prices have substantially reduced incomes and made farmers and lenders more careful in using and extending credit.

In many instances, however, farmers will need to borrow more in 1955 to cover expenses because of lower incomes in 1954 and continued high costs. This is expected to be the situation in parts of the Northeast and some other sections of the country. Slower repayment of loans, because of a prospective decline in income, will also cause outstanding debt to rise in scattered areas of the country. In the Corn Belt a slight increase in non-real-estate debt may occur because of a more stable cattle situation. Also it is believed that there may be some additional borrowing for fertilizer in 1955. In areas where the farm outlook is favorable or stabilized, an increase in credit for purchases of machinery may occur.

The supply of non-real-estate credit continues to be adequate in most areas, and, in general, lenders are not more restrictive in making loans to borrowers in good financial condition. Reductions in the debt

of such borrowers probably have been caused more by the desire of borrowers than by any action of lenders. In fact, lenders in many areas, and particularly those in the better farming areas, are trying to expand their volume of loans. Interest rates, which rose last year, have leveled off; for some lenders they have declined slightly. No substantial change in rates is expected for 1955.

Notwithstanding the generally good credit situation, lenders are now watching loans more closely than they did several years ago. They are more selective in making new loans because of the less favorable farm-income situation. It has become more difficult for the less efficient or the more heavily indebted farmers to get credit. In areas where drought has curtailed income for several years even some of the larger and better farmers have accumulated debt to a level at which lenders feel little additional credit can be advanced. In some instances, lenders make loans only for operating expenses and sharply limit those for expansion, and for capital expenditures. In many instances, the farmer or rancher is referred to the Farmers Home Administration for emergency financing.

Because of the short terms for which they are made, non-real-estate loans apparently present more repayment difficulties than do real estate loans. Currently, signs of trouble are showing for some poultry and vegetable producers, and for dairy farmers who produce milk for manufacturing purposes. Actual and prospective credit difficulties, however, have been reported most frequently in sections of the South and Southwest that are suffering from drought. But to date, relatively few forced liquidations have been reported, and these largely where poor management or uneconomic units were involved. Usually, lenders have renewed old balances and when possible they have provided additional operating credit. Nevertheless, many farmers and ranchers have had to resort to emergency credit from the Government to continue in business.

Farm Taxes

Taxes payable on all farm property in 1954 were about 3 percent higher than in 1953. This is the 13th consecutive year in which they have increased. Taxes on farm real estate increased about 5.4 percent, whereas those on personal property decreased about 6 percent. For personal property taxes the decrease was the first since 1953. For taxes on total farm property payable in 1955, another increase of about 4 percent is expected - possibly a 5-percent increase in real estate and a 3-percent decrease in personal property taxes.

Federal income taxes payable by farmers in 1955 on 1954 income are expected to show a decrease of about 18 percent from this year.

Three important factors contribute to this decline: (1) The decrease in farm income for 1954, as computed for tax purposes, and the graduated nature of the Federal income-tax schedule which causes the tax to decrease proportionately more than income; (2) the reduction in Federal income-tax rates effective on 1954 income; and (3) the newly enacted Revenue Code of 1954 which liberalizes depreciation on machinery and buildings and provides for the charge-off of certain outlays for soil and water conservation.

Insurance

Expenditures for farm property insurance probably will be from 5 to 10 percent higher in 1955 than in 1954. Although, in general, farm property values and replacement costs have not risen in 1954, some farmers will increase their property insurance in 1955 to cover more nearly current replacement costs. For several years, amounts of insurance have failed to keep step with the rise in property values, so that underinsurance is prevalent. As policies (mainly for 5-year terms) are renewed for increased amounts, the higher coverages will bring higher insurance costs. However, the assessment rates paid by farmers have varied little in recent years.

Lately, we hear more and more about the increasing liability risks of farmers - perhaps because of their recent gains in net worth. If held responsible for accidents, they are more liable to be sued - and for larger amounts. Liability risks of farmers have also increased because of increased mechanization and more frequent use of highways. These factors have increased the chance of accidents to employees and of injury or damage to the property of others. With mechanization have come larger farms and less direct control over farming operations, and these developments have also tended to increase liability risks. Also, new laws, particularly those in connection with employer liability, have altered the older common-law doctrine of fault and negligence. These laws make it easier for an injured person to recover damages. It is important for farmers to know of these changes in the risks of farming. They particularly affect farmers in our more densely populated areas.

This increase in liability risks brings a greater need for safety education, particularly among farmers who do not carry insurance - and that includes most of them. Farmers must know of their responsibilities to employees and to the general public.

The farmers' comprehensive personal liability (FCPL) policy provides financial protection to a farmer against suit by a visitor on the premises. Such suits may result, for example, from a tractor accident, or from someone using a product, sold by the farmer, that has become contaminated. By paying a small additional premium, the policy can be expanded so that a farmer can also protect himself against suits by injured employees - provided the State law does not require that they be covered by workmen's compensation insurance.

In 6 States, a workmen's compensation insurance policy is required with respect to farm employees, with minor exceptions.^{1/} In 12 other States, farmers are liable for compensation to injured employees who operate power machinery on the farm or for others.^{2/} In 7 additional States, court decisions have held that farmers are liable for compensation to employees in connection with certain special jobs of a contractual nature, such as sawmilling and trucking.^{3/} In these States, employees who do work of the kinds mentioned should be covered by workmen's compensation insurance. A farmer who is required to have workmen's compensation insurance on some or all of his employees, but does not have it, might find that an accident to one of them could be costly. Insurance of this kind is important for three reasons: (1) It protects a farmer against the expense and inconvenience of litigation; (2) it specifies payments to injured employees, in accordance with a schedule of benefits appearing in the law, without regard to fault; and (3) it protects the State from the burden of supporting those workers who are maimed and crippled by work accidents.

Like others, farmers are affected by the automobile financial responsibility laws that are now in effect in all States. Except for about two States, drivers must file security (such as an automobile liability policy) in connection with their first accident - or lose their privilege of driving. A farmer also may be held liable for the negligence of any employee who drives his automobile or truck in the course of the farm business. Standard motor vehicle liability insurance covers the operation of an insured vehicle not only by the owner, but ordinarily by others in the family and by hired help. The basic policy begins with a coverage of \$5,000 on injuries to one person, \$10,000 on injuries to two or more persons in one accident, and \$1,000 of property damage. Medical-payments coverage is optional, at extra cost, in multiples of \$500. It provides for payment of medical and hospital expenses in connection with the operation of the insured motor vehicles. Because of the trend toward higher jury verdicts in injury cases, higher coverages than the so-called 5/10/1 are recommended.

Financing Young Farmers

Each year roughly 100,000 young men in this country want to begin farming. They are faced with the problem of acquiring a farm - through either rental or ownership. It is never easy for young people to get started in farming. If prices of farms, equipment, and livestock are cheap, incomes and savings of prospective farmers also are low. If times are good and prospective farmers have been able to accumulate some savings, the investment needed to acquire a farming business is heavy. Also, more people with money now compete for available farms as investments. This, in general, is the situation that confronts young people who want to choose farming as a career.

^{1/} California, Connecticut, Massachusetts, New Jersey, Ohio, and Vermont.

^{2/} Arizona, Colorado, Idaho, Kentucky, Louisiana, Michigan, Minnesota, New York, Oklahoma, South Dakota, Wisconsin, and Wyoming.

^{3/} Arkansas, Georgia, Illinois, Indiana, Oregon, Pennsylvania, and Washington.

The magnitude of the financing problem faced by these young men may be indicated by the average investment in various types of commercial family-operated farms at the beginning of 1953. Average investment in a Corn Belt cash-grain farm was \$88,150, of which \$10,160 represented the average investment in machinery and equipment and livestock. For a central Northeast dairy farm the total investment was \$28,400, of which \$12,000 represented machinery and equipment and livestock. A southern Piedmont cotton farm represented a total investment of \$14,290, of which only \$2,200 represented machinery and equipment and livestock. Even after making allowance for the reduction in initial investment that might be made by substituting custom work for purchase of certain types of specialized equipment, the amount of capital necessary to start as a farm renter is sizable.

It is probably safe to say, however, on the basis of studies made of the progress of young farmers who began to farm since the end of World War II, that it is no more difficult to get started in farming now than it was before the war, or even a generation ago. Opportunities for off-farm work to assist in accumulating initial capital are much improved. Wages of hired farm workers have increased about twice as rapidly as the rise in farm machinery prices. Prices of used farm machinery have dropped sharply from the level that prevailed in the years immediately following World War II. Then, too, present educational programs and facilities undoubtedly are doing a better job in fitting our young farm men and women for the exacting duties of operating present-day commercial farms with all their technological advancements.

In many instances, such as with the only son of a farm owner, it is relatively easy to make the transition to become a farmer. The son gradually assumes more and more responsibility and eventually becomes full owner and operator of the enterprise. Often, a father-son agreement has facilitated the ultimate transfer of the farm, with equitable treatment of the interests of both father and son. The excellent work done by the various States in developing father-son agreements is an example of one approach to the overall farm-transfer problem.

But as research and extension workers perhaps we have overlooked the opportunity of exploring the somewhat similar arrangements that could be developed for transfer of farms when a father has no son who wishes to take over operation of the farm and for nonfarm landowners who might wish to transfer their property. The possibility of leasing a completely stocked farm with some degree of supervision by the owner -- though not too much -- needs to be explored further. The larger income to the owner from such a lease should prove more attractive than outright sale of the farm and reinvestment of the proceeds in most types of alternative investments. Availability of Old-Age benefits beginning in 1957, as I shall mention subsequently, might be an important factor in making such leasing arrangements more attractive to present-day farm owners who wish to retire in the near future.

Possibly the most difficult problem is that of the capable young farmer who is not in a position to acquire a farm under favorable lease of father-son agreement. Usually, he must resort to credit financing to enter the farming business. Major sources of credit for such young people, when they lack sufficient capital to be financed by the usual first mortgage available from institutional lenders, are: Individual investors, including relatives; retiring farmers; commercial banks; and production credit associations.

If these sources of credit are to help young people get started in farming, what requirements will they expect as a basis for extending financing? Three major factors may be listed:

- (1) "Know-how" - demonstrated ability to carry on present-day technical agriculture.
- (2) Proved financial management - ability to make money at farming and to save a reasonable proportion of such earnings.
- (3) Character - honesty in all dealings and tenaciousness in carrying out agreements.

These major requirements emphasize the fact that our young farm people start farming not when they actually take over the operation of a separate farm unit but as youths on the home farm and especially when they undertake their various 4-H and Future Farmers projects. These requirements also indicate the need of emphasizing to farm parents that their farm boys must be given the opportunity to accumulate an investment in livestock or machinery if they are to compete with other young farmers in acquiring control of the limited number of farms that become available.

With the number of farms available for rent considerably under the number of young men who grow up on our farms and wish to farm, landlords, particularly retiring farmers and lending institutions, will be screening would-be farmers to select those who appear to be best qualified to succeed.

Legislation Affecting the Financial Outlook

In the last year, important changes made in Federal legislation will have a direct bearing upon the financial situation of farmers. These include: (1) Changes in the Federal income tax; (2) expansion of the Water Facilities Loan Program; and (3) the expanded coverage of farmers under the Social Security Act.

Changes in Federal Income Tax

A development that will contribute to a reduction in farmers' liabilities for Federal income taxes on 1954 income is the newly enacted Revenue Code of 1954.

Of particular importance to many farmers is the new provision that permits certain outlays for soil or water conservation to be deducted from current income. Formerly such expenditures were recoverable neither as deductions nor as depreciation write-offs over the lifetime of the improvement. Eligible expenditures may now be deducted up to 25 percent of the farmer's gross income in any one year, and any excess can be carried over to subsequent years.

Important too are the liberalized depreciation rules provided in the new tax law. Several options are now available under which the farmer may write off as much as two-thirds of the cost of farm buildings and machinery during the first half of their lives.

The new law also extends from 1 year to 2 the period for which operating losses may be carried back and offset against taxable income. This means that a farmer whose current operations result in a loss may offset this loss against any net income he reported in the 2 preceding years. He is entitled to a tax refund on the difference. The law continues the provision that losses may be shifted forward for 5 additional years. Thus a farmer has a total of 8 years for writing off any net operating losses that he may have.

Farmers Home Administration Soil and Water Conservation Loan Program

Major changes were made in the Water Facilities Loan Program of the Farmers Home Administration with the adoption of Public Law 597, 83rd Congress, August 17, 1954. These changes include:

- (1) In addition to the direct loan program an insured loan feature with a \$25 million annual maximum. Prior to passage of the new law all loans under the program were made direct by FHA.
- (2) Authority for making both direct and insured loans throughout the United States and its possessions. Under the old program lending was limited to direct loans in the 17 Western States.
- (3) Loans (both direct and insured) can be made for soil and water conservation practices that are in accord with recommendations made by the Extension Service and the Soil Conservation Service. Previously loans could be made only for water facilities.

- (4) A maximum of \$250,000 may now be loaned to an association and \$25,000 to an individual. These ceilings apply to both direct and insured loans. Under the old program the maximum that could be loaned to any individual or association was \$100,000.

By administrative decision the interest rate on direct soil and water conservation loans is set at $4\frac{1}{2}$ percent. Previously, water facilities loans were made at 3 percent. By the same authority the maximum interest rate to private lenders under the insured loan program is $3\frac{1}{2}$ percent, and in addition the borrower pays a 1-percent insurance charge to the Farmers Home Administration.

Under the insured loan program the Farmers Home Administration collects all payments from the borrower and transmits these collections to the lender. If a borrower is in default on an installment, the Farmers Home Administration will pay the current holder of the note the amount due and unpaid.

In areas in which drought has been severe, considerable interest is likely to be shown in obtaining sprinkler or other types of irrigation systems to minimize risk from future periods of moisture deficiency. Past experience with such systems has pointed to the need of appraising carefully the availability of an adequate water supply and the legal right to use such water before making the investment required. In addition, it should be ascertained whether proper drainage exists; otherwise, one problem will simply be replaced by another.

Social Security for Farmers

The 1954 amendments to the Social Security law will have far-reaching economic and sociological effects upon our agriculture. Although in each year since 1950 about 700,000 regularly employed hired farm workers have been covered by the provisions of this law, the new amendments include all farm workers who earn as much as \$100 cash pay in a year from any one farmer. Of even greater significance, from the viewpoint of the number of farm people affected, are the provisions that also cover farm operators under Federal Old Age and Survivor's Insurance.

Farm operators in 1954 will pay about \$15 million as their share of Social Security taxes on the wages of about 700,000 hired farm workers. An equal amount is deducted from wages as the employees' share of the tax. Around 2 million additional hired farm workers will be covered by Federal old age and survivors insurance (OASI) in 1955 and the farmer's share of the tax will increase to about \$40 million a year.

At the time of the filing of 1955 income tax returns (by April 1956), nearly 3 million farm operators will pay about \$150 million in Social Security taxes on their net income from farming. The tax rate is

3 percent, payable on net incomes of from \$400 to \$4,200. All operators with net farm incomes of less than \$900 a year and gross incomes of \$800 or more have the option of reporting half of their gross as net farm income (up to \$900) for Social Security taxes.

Social security benefits accruing to farmers include payments of three kinds: (1) Monthly payments in old age; (2) monthly payments to survivors in case of the breadwinner's death; and (3) a lump-sum payment ranging from \$90 to \$255 at the time of the insured persons's death, at any age.

The amount of the monthly payment to the retired operator or worker, without dependents, who has qualified for insurance is based on 55 percent of the first \$110 of the average monthly earnings and 20 percent of the remainder. The maximum amount that can be paid will be \$108.50 a month on average earnings of \$4,200 a year. When the wife reaches 65 she will receive half as much, or a maximum payment of \$162.80 to both husband and wife.

Survivor benefits payable to a widow, over 65 or with children under 18, amount to three-fourths of the basic payments to an insured worker. Thus the monthly amount payable to a wife without children under 18 would range from \$30.00 to a maximum of \$81.40; with one child, the widow would receive \$45.00 to \$162.80; and with two or more children from \$50.20 to \$200.00. (See table 2.)

About \$21 billion will have been accumulated in the OASI trust fund by the end of 1954 almost entirely from nonfarm workers. It is expected that interest on this fund and taxes collected will continue to exceed benefits paid out for many years. But because benefits payments are relatively large as compared with taxes for older workers and those with below-average incomes, it is probable that by 1957 payments to all retired farm workers and their dependents or survivors will be greater than taxes paid by farm people.

To be eligible for Social Security benefits, farm operators and hired workers, as is true for other insured workers, must be covered for a minimum of six quarters. As the recent amendments do not become effective until January 1, 1955, this means that for all farmers whose income taxes are calculated on a calendar-year basis, benefits do not become payable until after March 31, 1956. Their social security taxes on 1955 earnings will be due and payable in April 1956. All self-employed workers are credited with four quarters of coverage in a year in which they have net earned incomes of \$400 or more. Most farmers will wait until early 1957 before applying for benefits. By that time their 1956 income can be determined, and benefits, ~~may be paid retro-~~ actively for as much as 12 months if they retire prior to date of application.

Until he reaches the age of 72, after which there are no limitations on earnings, a retired farm operator or worker who receives

Table 2.- Social Security benefits payable to those qualifying after August 1954

Average monthly earnings	Retirement benefits		Payments to survivors		
	Worker's monthly benefit	Worker and wife	Widow, child, etc.	Widow and 1 child	Widow and 2 children
\$ 45	\$30.00	\$ 45.00	\$ 30.00	\$ 45.00	\$50.20
100	55.00	82.50	41.30	82.60	82.60
150	68.50	102.80	51.40	102.80	120.00
200	78.50	117.80	58.90	117.80	157.10
250	88.50	132.80	66.40	132.80	177.20
300	98.50	147.80	73.90	147.80	197.10
350	108.50	162.80	81.40	162.80	200.00

monthly benefits can earn as much as \$1,200 in a year and still receive all his social security payments. Earnings from any kind of employment or self-employment are counted. If such earnings exceed \$1,200, reductions will be made in the amount of monthly payments according to a prescribed rule. But it is important to keep in mind that the so-called "un-earned" income - arising from rents, interest on savings or loans, and other insurance is not taken into account in computing the maximum of \$1,200 earnings. Such income receipts do not affect social security benefits.

In appraising the impact of the new social security benefits upon the future of American agriculture, it is well to bear in mind that, for several decades, the proportion of farmers over 65 has steadily increased. According to the 1950 census, about three-fourths of a million farm operators were listed as 65 or over. The decisions made by this large number of farmers will have an important impact on many aspects of the rural economy.

Will their decisions, for instance, result in a substantial increase in the number of farms offered for sale, beginning with 1957, and thus become an appreciable factor in the farmland market? Will they offer their farms for rent? Rental payments will not affect their retirement benefits.

What will their plans mean to young farm men and women who are anxious to get started in farming? Included in this group of elderly farmers are a substantial number of owners of debt-free farms and individuals with appreciable holdings of liquid financial assets. With the added income from old-age benefits, will they be more willing to accept smaller initial and annual payments in the sale of their farms to help young people start farming operations?

In this same frame of reference, what proportion of farm owners eligible to retire will forego their old-age benefit payments until they reach 72, in order to receive a larger income by leasing their

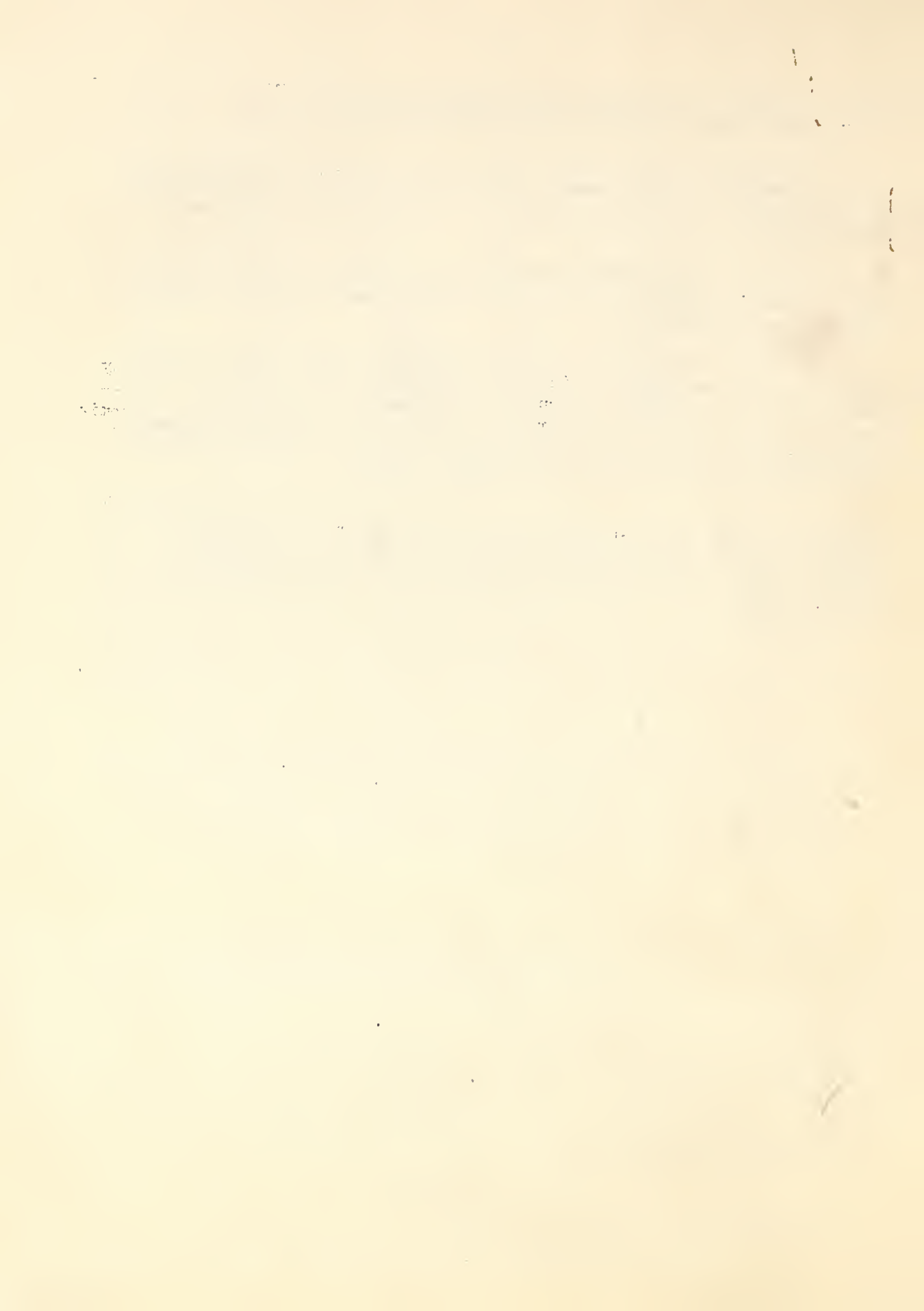
farms with stock and equipment to qualified young farmers, with some degree of supervision, and thus be classified as self-employed?

If old-age benefits should speed up the rate of retirement of elderly farmers, will this mean an exodus from farms to nearby villages and towns and what will be the economic and social effects upon the pattern of these communities?

Or will it mean a widespread increase in construction of rural homes, so that two families, with the aid of old-age benefits, can be supported on a single farm?

These are only a few of the questions that face us as we try to appraise the future significance of Social Security for farmers. Any change in long-established customs and practices by which farmers retire and dispose of their farms will have important social and economic implications, not only to elderly farmers and their immediate families but to successive generations seeking farm careers.

It is a challenge in farm and home planning. It is a challenge to all of us, and particularly to extension workers, to anticipate changes caused by the new legislation and to help farmers develop retirement plans suited to their interests and to those of agriculture as a whole.



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UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

THE OUTLOOK FOR COTTON 1954-55

Statement presented by Frank Lowenstein at the
32nd Annual Agricultural Outlook Conference,
Washington, D. C., October 26, 1954

Some of the outstanding features in the outlook for cotton for the 1954-55 marketing year are the prospect for a considerably smaller carry-over of cotton at the end of the season than that of a year earlier, marketing quotas for 1955 of about 10 million bales, and the set-aside for upland cotton of about 3 million bales under the Agricultural Act of 1954.

The decrease in the carryover is in contrast to the situation which has existed for the past 3 years when the carryover has increased with each succeeding year. The carryover on August 1, 1955 is expected to be around 8.5 million bales, compared with 9.6 million a year earlier.

The decrease in the carryover is expected because estimated 1954-55 disappearance is about 1.3 million bales larger than that of 1953-54. The increase in disappearance is expected because of larger exports and larger domestic mill consumption (figure 1). Although the 1954-55 disappearance is expected to be larger than that of 1953-54, the estimate is very nearly the same as the averages for the five seasons beginning with 1949-50. The 1949-53 average disappearance of 13.8 million bales was 1.5 million larger than the 1935-39 average. The larger disappearance in recent years was caused by larger domestic mill consumption which in turn was primarily caused by larger population. Exports in the post-war period were smaller than those of the pre-war period due to larger exports of foreign cotton.

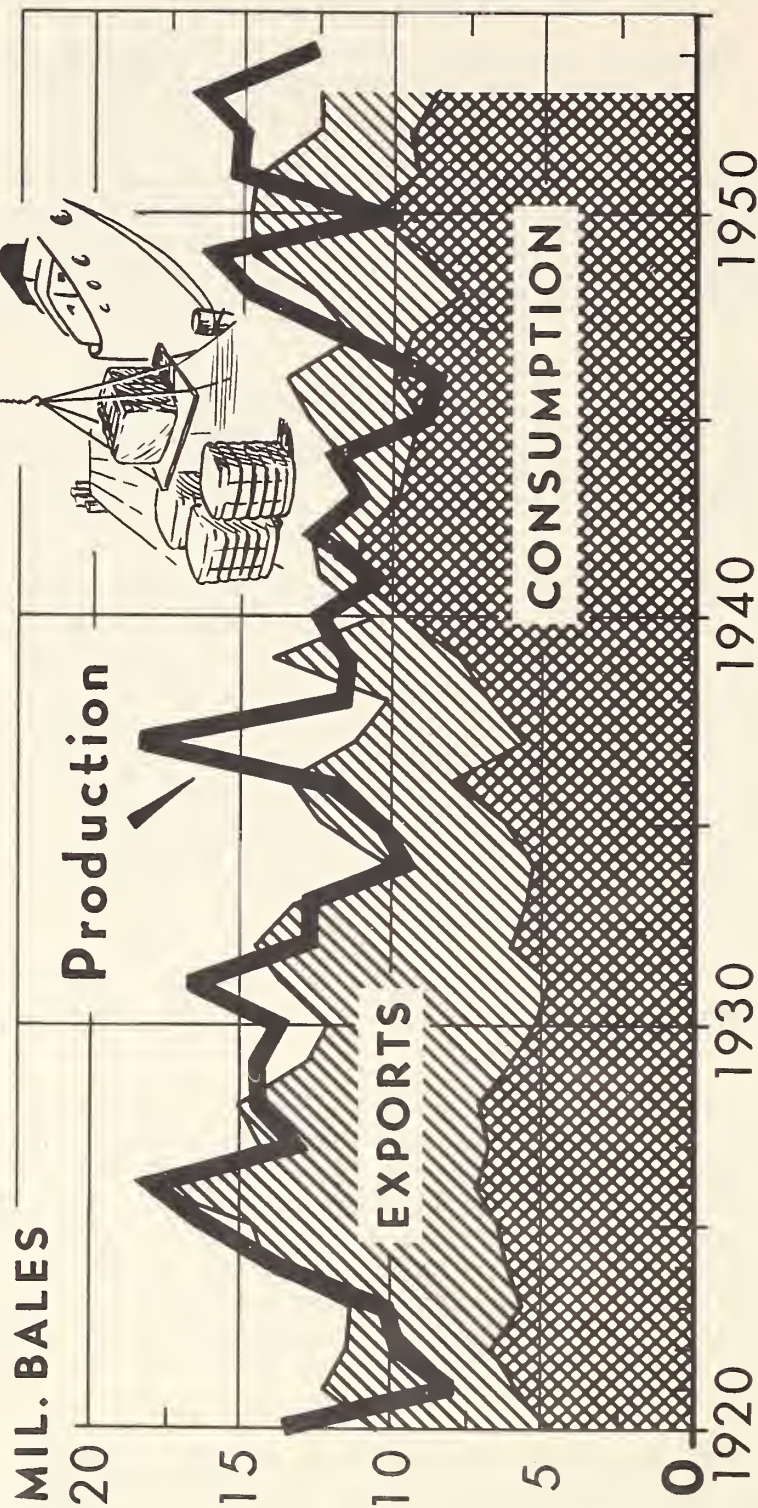
The supply in 1954-55 is expected to be about the same as in 1953-54. The increase in the August 1, 1954 carryover was about the same as the decrease in the 1954 crop.

Domestic mill consumption of cotton is expected to increase from about 8.6 million bales in 1953-54 to approximately 9.2 million in 1954-55. The probable increase will be caused by larger military purchases of textile items and by an increase in unfilled orders for gray goods in the last few months. The consumption of man-made fibers is expected to be slightly larger in 1954-55 than in 1953-54; but because of larger population, consumption per capita of these fibers will probably be about the same level. This in contrast to the tendency during the past for synthetic fiber consumption per person to increase steadily year after year (figure 2).

The trend in fiber consumption for several years has been for cotton to capture an increasing share of the apparel and household markets and for synthetic fibers to capture an increasing share of the industrial market. It is likely that these trends will continue into 1954-55.

For U. S. Crop

COTTON PRODUCTION RELATED TO CONSUMPTION AND EXPORTS



DATA ARE FOR RUNNING BALES

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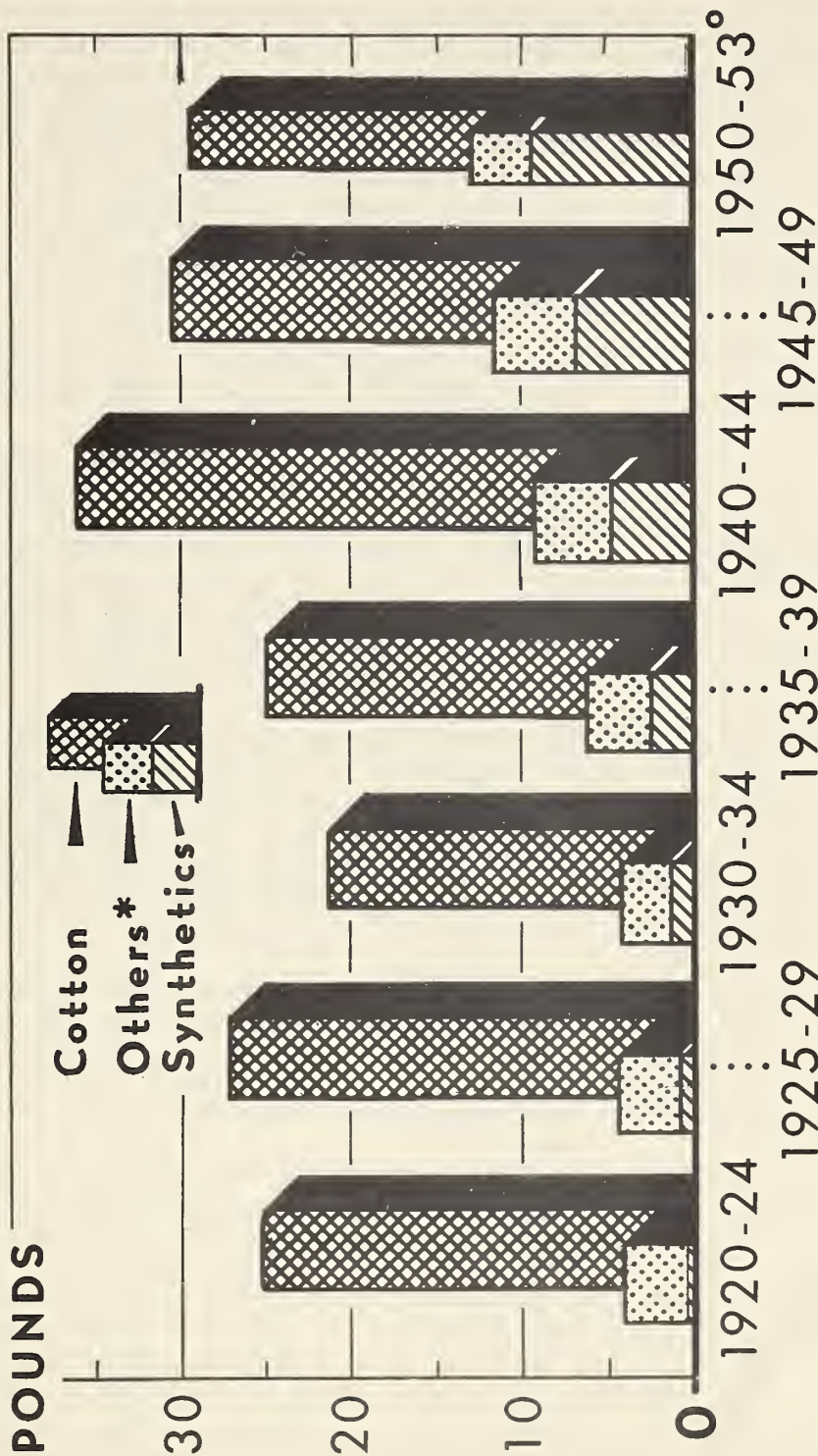
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Figure 1

Natural and Synthetic Fibers

FIBER CONSUMPTION PER PERSON



* WOOL, FLAX, AND SILK ° 4-YR. AV.

Figure 2

Exports of cotton are expected to increase from about 3.8 million bales in 1953-54 to approximately 4.5 million bales in 1954-55. Consumption of cotton in the foreign free world was at a post World War II high in 1953-54 and is expected to continue close to this peak in 1954-55. Although free world production abroad will probably increase by about 1 million bales in 1954-55 over last season, stocks at the start of the current season were at a low level. The low level of beginning stocks and the maintenance of a relatively high level of consumption abroad will require that foreign countries increase their imports of cotton from the United States. Another reason for this is a probable slight increase in foreign stocks which is being stimulated by a rise in foreign prices in the past few months.

On December 31 foreign holdings of gold and dollars were 2,590 million dollars above a year earlier. They were the highest of any December 31 since the end of World War II.

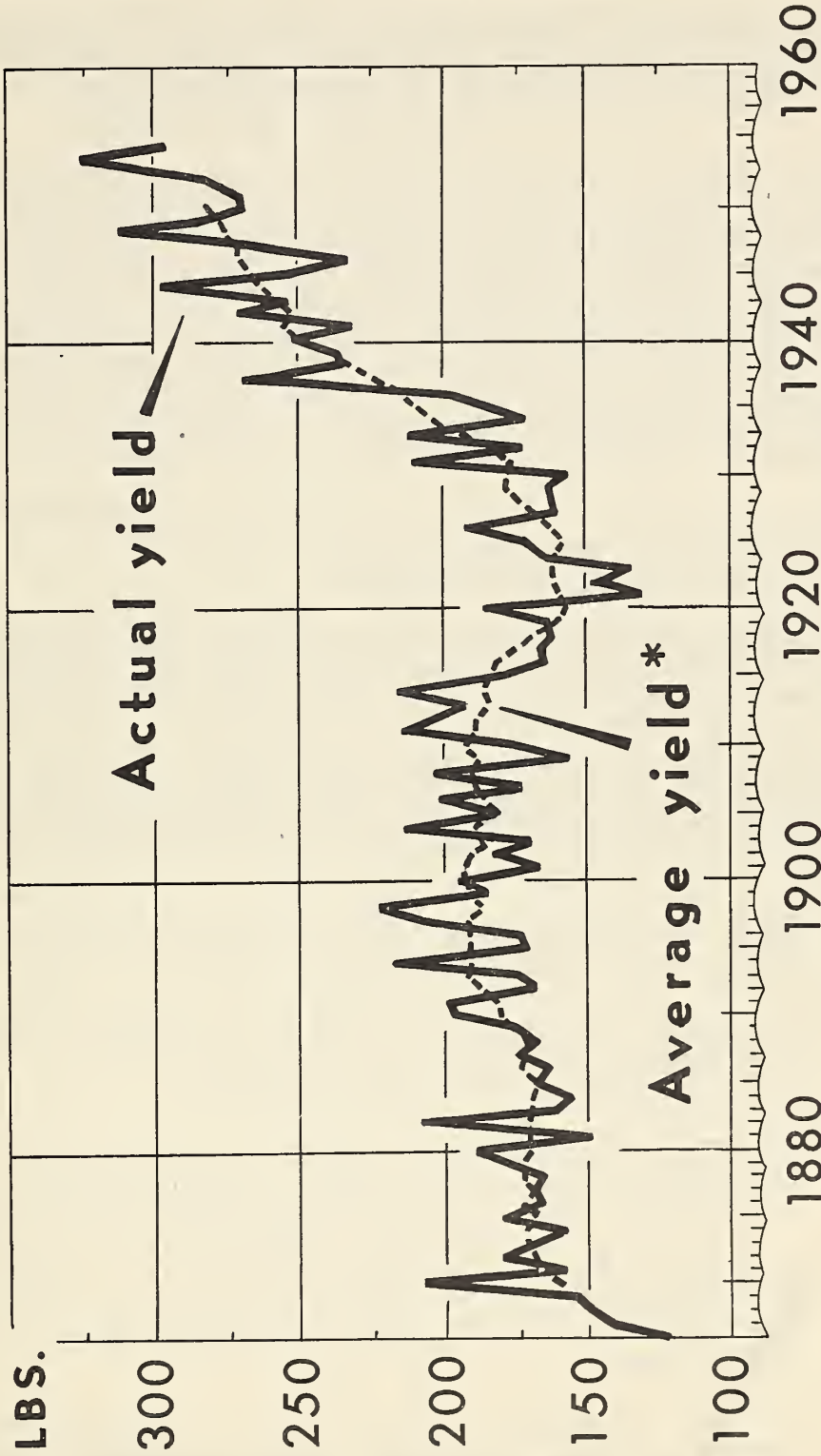
Grants by the Foreign Operations Administration to finance the export of cotton from the United States in 1954-55 totaled 88 million dollars as of October 20. Authorizations for sales of cotton for foreign currency under the Mutual Security Act of 1954 are just getting under way and as of October 20 totaled 8.9 million dollars. In addition, funds loaned to Japan by the Export-Import Bank for the purchase of cotton in 1954-55 amount to about 61 million dollars.

Loans and grants and other programs of the United States Government to finance the export of cotton in 1954-55 totaled about 158 million dollars as of October 20. There is no way to estimate authorizations that may be issued subsequent to this date. The funds authorized as of October 20 will finance the export of about 0.8 million bales of cotton. In 1953-54 loans and grants totaled about 327 million dollars and financed the export of about 1.8 million bales.

On July 10 the President signed the Agricultural Trade Development and Assistance Act of 1954. This act authorizes the sale of surplus agricultural commodities for foreign currency and the use of such commodities for relief purposes abroad. As of October 20, no authorizations to finance cotton exports had been issued under this act.

As of October 1, the 1954 cotton crop was estimated at 12.4 million running bales. This compares with the 1953 crop of 16.3 million bales. The average yield per harvested acre for the 1954 crop is estimated at 311 pounds, about 13 pounds below that for the 1953 crop. However, the 1954 yield is above that shown by a projection of the upward trend in yields which has prevailed since the mid-1920's. The Western States of Arizona, California, and New Mexico showed an increase in yield of about 133 pounds per acre over 1953. The other areas of the cotton belt showed smaller yields in 1954 than in 1953. The west showed a sharp increase in the use of fertilizer, but the proportion of cotton acres fertilized in the country as a whole was the same in 1953 and 1954, about 59 percent.

COTTON YIELDS PER ACRE



* 9 - YEAR MOVING AVERAGE, CENTERED, PER HARVESTED ACRE

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Figure 3

About 46 percent of the estimated 1954 crop had been ginned by October 1. This was the most rapid rate of harvest since 1943 when about 52 percent of the crop was ginned by October 1. About 34 percent of the 1953 crop was harvested by October 1, 1953.

The proportion of the 1953 cotton crop harvested mechanically was about 22 percent. Each season since 1949 the proportion of the crop harvested mechanically has increased over the proportion during the preceding season. It seems likely that the proportion of the 1954 crop harvested mechanically will be between 25 and 30 percent. The States showing the highest proportion of mechanical harvesting in 1953-54 were Arizona and California, 54 and 59 percent. The only other state in which more than 25 percent of the 1953 crop was harvested mechanically was Louisiana, 34 percent. Texas had 24 percent of its crop harvested mechanically and Oklahoma had 19 percent.

The United States average cost of hand picking cotton for the 1953 crop was 2.80 dollars per hundred pounds of seed cotton. This was 25 cents below the rate for the 1952 crop.

The 1953-54 marketing year was the first season since 1949 in which the wage rate for picking declined. The highest rate for picking cotton in 1953 was paid in Missouri, 3.25 dollars per hundred pounds of seed cotton, and the lowest rate was paid in New Mexico, 2.50 dollars. For many years, California growers paid the highest rate for picking but this was not true in 1952-53. Apparently competition from mechanical pickers caused the hand picking rate to decrease in those two years. This situation seems to have prevailed also in Louisiana, Oklahoma and Texas.

On August 28, the President signed the Agricultural Act of 1954. The Act contains the following provisions concerning cotton:

1. The County Committees are given the authority to establish farm acreage allotments for cotton on a history basis or on a percentage of cropland tilled basis.
2. The effective parity price for upland cotton beginning with the 1956 crop will be the higher of transitional or modernized parity. Transitional parity is the "old" parity price less 5 percent for each full calendar year which elapses from January 1, 1955. On September 15, the "old" parity price for upland cotton was 34.84 cents per pound. The modernized parity price was 33.29 cents or about 96 percent of the "old" parity price.
3. In 1955, the support level for most of the basic commodities, including upland cotton, will range from 82.5 to 90 percent of the parity price, depending upon the relation of actual supply to normal supply. After 1955, the flexible price support scale will range from 75 to 90 percent of the parity price.

4. Beginning with the 1955 crop, extra-long staple cotton will be supported at the minimum level specified by the flexible price support schedule, 75 to 90 percent of the parity price. This probably means a support level of 75 percent of the parity price for the 1955 crop.
5. The Act specifies a "set-aside" from CCC stocks of 3 to 4 million bales of upland cotton. The "set-aside" will be included in the supply when computing marketing quotas, but excluded when computing the price support level. The "set-aside" may be disposed of for foreign relief purposes, sold for foreign currency, to develop new and expanded markets, transferred to the national stockpile, used for research and experimental or educational purposes, used for disaster relief in the U. S., or sold for 105 percent of the parity price for "unrestricted" use to meet a need for increased supplies.

On September 15, the Secretary of Agriculture announced an initial "set-aside" of 1 million bales of upland cotton. This amount will be increased to 3 million bales at a later date. The Secretary also said that the entire 3 million bales would be excluded from the computation of carryover when computing the price support level for the 1955 crop of upland cotton.

Cotton cannot be placed in the "set-aside" unless CCC owns the cotton. As of September 10, the CCC held (owned, pooled to producers accounts, and pledged as collateral against outstanding loans) 6,953,000 bales of upland cotton. However, only 1,680,000 bales of this cotton were owned by CCC. Most of the remainder - 5,147,000 bales - was pledged as collateral against outstanding loans. The 1953-crop cotton which comprised most of the loan collateral cannot be placed in the "set-aside" until the loans on that crop mature on July 31, 1955. Since disappearance is expected to be larger than production, total stocks held by CCC will probably be smaller on July 31, 1955 than they were on September 10, 1954. The amount of cotton which CCC owns at that time will partially depend upon the amount of cotton held under the 1954 loan. However, it seems likely that about 4.5 million bales will be owned by CCC, including 1953 crop cotton, at the end of the current season. Once CCC takes ownership of the 1953 loan cotton, the placing of a full 3 million bales in the "set-aside" can be formally completed.

On October 14, the Secretary of Agriculture announced the marketing quotas and national acreage allotments for the 1955 crop of cotton. The marketing quota for upland cotton was set at 10 million bales and for extra-long staple cotton the quota was 30 thousand bales. The national acreage allotments for the two are set at 18,113 thousand and 46 thousand acres, respectively.

If disappearance and imports are the same as those used for 1954-55 in computing the 1955 marketing quota and production is the same as the marketing quota, the carryover of upland cotton on August 1, 1956 will be about 4.8 million bales. If the "set-aside" is maintained at 3 million bales throughout the 1955-56 season, stocks of upland cotton outside of the "set-aside" at the end of the season would only amount to about 1.8 million bales. In such an eventuality, stocks might be withdrawn from the "set-aside" at 105 percent of the parity price. However, the "set-aside" could be reduced below the 3 million bale level by exporting "set-aside" stocks for foreign currency or using them for foreign relief, disaster relief in the United States, or one of the other uses specified in the Agricultural Act of 1954.

Although the average price received by farmers for upland cotton during the 1953-54 marketing year of 32.10 cents per pound was the lowest since the 1949-50 season, prices received for the 1954 crop have been increasing. The average price received by farmers in mid-September of 34.55 cents per pound compares with 34.00 cents in August and 33.09 cents in September 1953. The average 10 spot market price has shown an erratic tendency during the current season. The average price during August was 34.19 cents per pound, during September it was 34.50 cents, but by October 19, it was back to the August average. On October 19, 1953 the average 10 spot market price was 32.63 cents per pound. Since August 1, 1954 the Department has quoted official prices from 14 spot markets. The average 14 spot market price for Middling, 15/16 inch cotton has been slightly below the 10 spot market average and since the 14 market average is not available for earlier seasons the 10 spot market average is still used for historical comparisons. For example, in September 1954 the 10 spot market average was 34.50 cents per pound and the 14 spot market average was 34.42 cents.

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Agricultural Marketing Service

OUTLOOK FOR DAIRY PRODUCTS IN 1955

Statement presented by H. C. Kriesel at the
32nd Annual Agricultural Outlook Conference,
Washington, D. C. October 26, 1954

On the surface the words "more of the same" appear to describe dairy prospects for the year ahead. That is, it appears that 1955 will be similar to 1954 with respect to production of milk, consumption of the several dairy products, wholesale and retail prices, and cash receipts by farmers from the sale of dairy products.

The level of production is the key to several important facets of the dairy outlook. The most likely level of milk output, it appears, is about 124 billion pounds, about the same as produced in 1954. Stability in output next year would be the net result of several offsetting influences.

Dairy prices likely will average no higher next year than in the last 9 months of 1954. The relationship of dairy prices to prices for feed and to prices of competing livestock products may not be much different in 1955 from that prevailing this autumn. All important price relationships are currently well below average and maintenance of these in 1955 will tend toward lower milk production.

However, the effects of these less favorable price relationships on level of milk production will tend to be offset by several other influences. An immediate consideration for many farmers is how to use their resources more fully, with a view to maintaining cash receipts and thereby maintaining their level of living. Production and sale of milk lends itself reasonably well to this objective, since income can be realized shortly after the beginning of milk production and dairying provides a steady source of income. The cost of establishing or expanding the farm dairy enterprise is still relatively higher than for a number of other farming alternatives. But with the many changes which have been made in methods for housing and handling dairy cows, the cost can be much lower now than in former years. Furthermore, the price of milk cows is much less than it was two or three years ago.

Another weighty influence which will tend to buoy up total milk flow is the fact that we are witnessing an era of marked changes in methods of producing milk. Since these changes are designed to lower per unit cost of production, they are welcomed offsets to lower dairy prices; but these cost reductions are usually accomplished by increasing the scale of operations, particularly the keeping of more cows. Also, dairymen are making improvements in roughage and pasture programs. These developments will tend to temper the effects in 1955 of prospective below-average relative prices for milk and butterfat. As a result, total number of milk cows retained by farmers and rate of production per cow may change little.

On balance, for 1955 it appears that with average weather, about as much milk will be produced as in 1954. It is to be noted that milk production in the United States set successive records in 1953 and 1954, even though serious drought was widespread over the country. If there are no serious drought areas in 1955 and general pasture and crop conditions are above normal, milk production could show another increase in the calendar year coming up.

Even though milk production in 1955 is expected to equal that of 1954, the total supply of dairy products next year will be substantially increased. The increase will come about mainly through the larger Government holdings of price-support stocks than were on hand at the beginning of this calendar year. While these stocks are not a direct influence on the commercial market, they will be available for sale to the domestic market at prices moderately above the current support level. Recently the milk equivalent of total holdings of dairy products, private and Government combined, was 17 billion pounds compared with 12 billion pounds a year earlier. The total supply of milk and dairy products in 1955 will be equivalent to around 139 billion pounds of whole milk compared with the expected 135 billion pounds for calendar year 1954.

With the projection of little change in per capita incomes in the next 12 months, the demand by consumers through commercial channels for dairy products probably will be at least as large in 1955 as 1954. The commercial foreign demand for U. S. dairy products, already at a comparatively low level, probably also will be changed little in the coming year. Under the Agricultural Act of 1954, however, the use of milk and its products will be increased among two important segments of the population.

One provision of the new Act authorizes the expenditure of up to 50 million dollars per year for the next 2 years to increase consumption of milk among children in schools. Detailed agreements have been developed with about 40 States and the program already is operating in many areas. When in general use, this program will lead to an increase in consumption of fluid whole milk of at least a half billion pounds.

A second provision of the new Act authorizes the Department of Agriculture to assist in increasing consumption of milk and dairy products by members of the Armed Forces. Programs already have been developed to this end and provide for a reimbursement of the Defense Department by the Department of Agriculture for part of the cost of increases over recent levels of fluid milk use. These two programs together promise increased fluid milk use in the neighborhood of three-fourths of a billion pounds per year. In addition, the Department is authorized to transfer manufactured dairy products to the military agencies free of charge for any increased consumption.

Since prices of dairy products and per capita incomes of consumers will be essentially the same in 1955 as in recent months, there is not likely to be much change in the per capita rate of consumption for any one of the several dairy products. In the past year, with some stimulus from price reductions, consumption per person of several items was increased slightly. The biggest gain apparently occurred for butter. With the average retail price of butter down about 10 percent, it appears that per capita consumption in 1954 will be around 9 pounds per person, compared with 8.6 pounds in 1953, a gain of about 5 percent. Cheese consumption also increased a fraction of a pound from 1953 to 1954. Conclusive data

are not available for fluid milk, but indications point to an increase of 1 to 2 pounds per person. Ice cream consumption in 1954 dropped slightly from that of 1953 despite slight price reductions. This may have been partly a weather phenomenon.

In the aggregate, consumption of dairy products per person, combined on a fat solids basis, will be nearly 700 pounds in 1954 compared with a little less than 690 pounds in 1953. An increase of not over 2 or 3 pounds is in prospect for 1955 and this will reflect mainly the gain in fluid milk consumption among school children. Per capita consumption of fluid milk and cream in 1955 probably will show a slight increase over the 351 or 352 pounds in 1954 compared with 350 in 1953, the wartime peak of 399 in the mid-1940's and the prewar average of 330 pounds.

The use per person of milk in all forms of around 700 pounds in 1954 compares with the pre-World War II average of nearly 800 pounds. Total domestic use of milk in 1954 aggregated around 118.5 billion pounds. With a very slight increase in the per person takings in 1955 and the prospective increase in population, the combined usage of milk will be raised to around 121 billion pounds. Thus, if production of milk is not greatly different from the 124 billion pounds of 1954, the surplus of dairy products in 1955 will be less than in either of the past 2 years. In fact, the rate of purchases which these figures imply suggests that the Department of Agriculture will be able to distribute about as great a quantity of dairy products as it purchases during the calendar year 1955.

In the coming year there will be a significant shift in pattern of milk utilization. The use of milk in fluid form will be relatively greater, while that used in butter and cheese will be reduced--the result of smaller milk surplus. Output of nonfat dry milk also may decline from 1954 but the surplus will still be substantial.

Since there will still be some surplus of dairy products in the year ahead, we are likely to have prices for milk and butterfat at support levels much of the time. This will mean, in general, that prices received by farmers for dairy products in 1955 will not be much different from those received in the last 9 months of 1954. This is especially likely for butterfat if the parity index continues stable and if support is continued at 75 percent of parity. In the case of manufacturing milk, however, a revised basis for computing the parity equivalent, announced last April, could give a slightly lower support structure for the marketing year which begins April 1, 1955 if the support is continued at the 75 percent level. The reduction would be a maximum of around 5 percent, or less than 20 cents per hundredweight, and necessarily would be translated into price changes for products of milk other than butter. Such a price reduction for manufacturing milk also would be translated into lower prices for fluid milk in some fluid milk markets. A large portion of the fluid milk, however, would not be affected by this modification. The average price received by farmers for milk delivered to plants and dealers in 1955 may be only a trifle under the \$4.00 per hundredweight received in 1954, compared with \$4.32 in 1953 and \$4.85 in 1952. The butterfat price is now averaging around 56 cents per pound, compared with 66 cents in 1953 and 75 cents in 1952. It is to be emphasized that the above projections on prices are

premised on continued dairy supports at present percentage of parity. Actually, as you know, the decision on level of supports is not determined and announced until just before the beginning of the new marketing year.

The increases in sales of milk by farmers in 1954 over 1953 helped to maintain the level of cash receipts from the sale of dairy products. Despite the decline in prices, cash farm receipts from the sale of dairy products in 1954 totaled about 4.2 billion dollars, compared with 4.4 billion in 1953 and 4.6 in 1952. Income in 1955 promises to be close to 4 billion dollars. The cost rates on goods and services used in milk production probably will not change much in 1955 from 1954.

A record quantity of dairy products was purchased by the Commodity Credit Corporation in the past year. Purchases greatly exceeded available outlets. Stocks of butter and cheese in mid-October were 403 million pounds and 412 million pounds, respectively. About 563 million pounds of nonfat dry milk were sold for use in animal feed in 1954 and stocks of this item in mid-October were 234 million pounds. Purchases of the three dairy products under the support program from April through September were 176 million pounds of butter, 117 million pounds of cheese and 376 million pounds of nonfat dry milk. Reflecting a seasonal reduction in milk output, CCC price-support purchases have declined considerably since midsummer. No butter was bought between September 17 and October 22. About 3 million pounds of butter have been sold back to the commercial trade. As indicated from the above discussion, support purchases of dairy products in 1955 promise to be considerably smaller than in the past 2 years and there could well be no increase in CCC stocks of butter and cheese during the next 12 months.

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X OUTLOOK FOR DOMESTIC DEMAND IN 1955 X

Talk by Nathan M. Koffsky
at the 32nd Annual Agricultural Conference
Washington, D. C., October 25, 1954

This year-1954-the Nation's economy has shown remarkable stability at a level only slightly below the record year, 1953. The decline in economic activity, which was becoming evident at the time of our meeting a year ago, leveled off early this year. Since then, declines in some sectors, primarily associated with substantial reductions in Federal government expenditures, have been offset by expansion elsewhere in the economy, notably in construction activity and in consumer expenditures. According to present schedules, defense spending may well be further reduced over the months ahead. Yet, offsets in view such as larger outlays by State and local governments for public construction and prospects for growing stability of business inventories, indicate a general economic situation next year at least as good as this year, and perhaps somewhat better. Consumer incomes available for spending and the domestic demand for food and other farm products, which have been maintained this year much as in 1953, should continue as good or better in 1955.

Let us put in more precise terms the shifts in demands on the economy which developed over the past year, keeping in mind the stability we have had more recently. Total expenditures by consumers, by business and by Government in the third quarter of this year were at the annual rate of 356 billion dollars. This was 11 billion dollars or 3 percent less than in the third quarter of 1953. This represents the overall reduction in demand and output from a year ago, since prices in general have been very stable. The latest figures show the Consumer Price Index at the same level as a year earlier and the wholesale commodity price average less than 1 percent under. Wholesale prices of farm products are down some but those of industrial prices are practically unchanged.

This reduction in total demands of some 11 billion dollars from the third quarter of 1953 to the same quarter of 1954 reflected:

A reduction of about 9 billion dollars in the annual rate of government expenditures for goods and services. Federal expenditures were down about 11 billions, mostly due to the decline in national security expenditures. State and local government outlays rose slightly over 2 billions, largely for schools, highways and other public construction.

Outlays for investment dropped some 5 billions. The rate of inventory purchases declined 6 billions, reflecting considerable inventory liquidation in the recent quarter. Increasing rates of construction outlays - both residential and commercial - offset a decline in business investment in new equipment, including a substantial reduction in farmers' purchases of machinery. U. S. investment abroad increased about a billion, reflecting some increase in commercial exports over a year earlier.

The rate of consumer expenditures rose 3 billion dollars. While expenditures for durable goods such as automobiles were reduced close to 2 billions, those for nondurables, particularly food, rose by the same amount, and expenditures for rent, medical care, recreation and other services rose close to 3 billions.

Thus, we have seen over the past year, a considerable transition toward a more normal peacetime economy. Expenditures for national security programs have been reduced about a sixth, and presently account for 12 percent of our total economic activity as compared with 14 percent a year earlier. We have seen also that total business investment, except for inventories, has continued at about the same rate as a year earlier. And we have seen some expansion in consumer expenditures despite somewhat lower levels of nonfarm employment, especially in durable goods manufacturing and in mining, and some reduction in farm income. Consumer expenditures now account for 66 percent of total economic activity as compared with 63 percent a year earlier.

It is not surprising that the consumer has been a stabilizing force in the economy this past year. Despite some decline in payrolls, the reduction in income taxes last January and increased payments for unemployment compensation and Social Security have maintained the aggregate level of consumer income, after taxes, slightly above a year earlier. Moreover, there has been a recent tendency to spend somewhat more out of current income than a year earlier even though savings continue high. In the most recent period, consumers saved 7.3 percent of disposable income as compared with 8.0 percent a year earlier. Consumer use of credit has stabilized at about year ago levels after some increase last fall and decline during the winter. There is little to suggest that consumer confidence in general has waned even though the employment situation is easier.

In turning now to the year ahead, what are the prospective demands from each of the major sectors - Government purchases, business and other private investment, and consumer expenditures for all the goods and services that make up the American standard of living? For the government sector, it seems quite clear that unless developments in the international situation should require otherwise, outlays for the national security will likely decline some further. According to the Budget Review of mid-September, defense spending in the current fiscal year will be lower than in the year ending June 30, 1954. The decline in defense expenditures is continuing. Over the past year, the annual rate of these expenditures has dropped an average of over 2 billion dollars per quarter. However, the most recent quarter shows the smallest drop--less than 1 1/2 billions--since the decline in security outlays began over a year ago. Based on the Budget estimates, some further reduction in defense expenditures is scheduled. But it is not likely to be as much as in the past year. Again, we may expect that State and local government expenditures for schools, streets and highways will continue upwards, as they have throughout the postwar period - increasing about 2 billion dollars over the next year - the same as in the last year. We have still considerable to go to provide adequate facilities of these kinds. While the growth in such expenditures has moderated in the last 6 months, the huge volume of public bond issues for public construction - considerably higher than a year ago - indicates that this situation is temporary. On balance, total demands from government, including Federal, State and local units, may well be somewhat less a year hence than now but the reduction will likely be smaller than in the past year.

We can reasonably expect, however, that investment outlays will increase enough to offset probable reductions in government demand. Business inventories have been substantially reduced from a year ago and stock-sales ratios have been moderately improved. In the third quarter of this year, business inventories were being reduced at the rate of 4 billion dollars a year - and this has been going on for a full year. In view of the stability of final demands over the past 6 to 9 months, the depressing effect of current inventory liquidation on production levels will likely diminish over the months ahead. This is decidedly a plus factor in the economic outlook.

The renewal of the housing boom has shown great vigor, which seems likely to be maintained in 1955. Lower interest rates and easier mortgage payment terms, recently enacted, have been reflected in a substantial increase in private new housing starts, which in September were at an annual rate of over 1.2 million units, some 21 percent larger than a year earlier. In addition, there is considerable modernization of existing homes. Although fewer new households are being formed now than a year ago - 800,000 versus 950,000 - the trend toward larger families and larger homes, and the generally broader demand for housing stimulated by easier credit have been more than offsetting. Vacancy rates of dwelling units are still relatively low in most areas. Commercial construction, especially of shopping centers, and institutional building, such as churches and hospitals, are still following the trend to the suburbs and should increase some again next year.

However, business investment in new plant and equipment has been declining since last fall. Based on a recent SEC-Commerce survey, business firms anticipated spending 8 percent less on new plants and equipment in the third quarter of this year than was spent in that quarter of 1953. Business expected also to spend 3 percent less in the current quarter than in the third quarter. Some further reduction seems in view for 1955. We have had a substantial expansion in industrial capacity in recent years, some of which was associated with the defense program. Some industries are now operating considerably below capacity levels. Nevertheless, there are good indications that business capital expenditures in 1955 will hold fairly close to current levels. Rapid technological developments are bringing a strong demand for new kinds of machinery. Also, the growing competitive situation in the economy generally is placing strong emphasis on machinery which will cut costs. It should also be noted that certain aspects of new tax legislation - the carryback of losses and accelerated amortization - are designed to encourage investment. Farm investment in buildings and equipment will likely continue at about current reduced rates.

Finally - in the investment sector - our foreign trade situation has improved over a year ago and could improve some again next year. A year ago, there was the general feeling that even a small decline in economic activity in this country would have considerable adverse effects on other countries. This was not realized. The economies of Western Europe have generally strengthened. The United States has slightly reduced imports reflecting a lower level of industrial activity here. But with continued foreign aid from this country, United States commercial exports, excluding military shipments, have been running somewhat higher than a year ago.

To sum up so far, there is little in the prospects of combined demands from government and from business at this time to indicate that the flow of income to consumers from these activities in 1955 will not be maintained at current high levels. Wages and therefore, consumer incomes could increase some, especially if the volatile inventory situation should turn from current heavy liquidation to some build-up.

Nor is it likely that the consumer himself will initiate changes in his spending pattern which could lead to some reduction in economic activity. Considering that over the past year, consumer expenditures have risen somewhat more than consumer incomes, and that the rate of savings out of income has been reduced, it seems more likely that consumer activities will generate increased demands on the economy rather than less. Certainly, the rapidly increasing population and the American goal of still higher levels of living are conducive in that direction.

For 1955, then, we believe the prospects are for a level of economic activity at least as good as this year. General price stability should continue again next year. Consumer incomes and consumer spending are expected to remain fairly stable and may increase some, with consumers continuing to spend one-fourth of that income for food, as they did this year and last.

Let us make clear, however, that while we have been quite successful over the past year in absorbing the impact of transition from war to a more peace like economy, as a Nation we cannot remain stable for long. Our labor force grows by perhaps 700,000 persons a year--and if we are to stay prosperous, employment opportunities must expand in the years ahead.

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X THE OUTLOOK FOR EGGS AND POULTRY IN 1955 X

Statement presented by Edward Karpoff at the 32nd
Annual Agricultural Outlook Conference,
Washington, D. C., October 26, 1954

In discussing the 1955 outlook for eggs and poultry, we've got to start with the frank realization that 1954 is a year of low returns to the producers of eggs, chickens, and turkeys. Egg prices to date this year are the lowest since 1950; broiler prices, since 1942; turkey prices in September were the lowest since 1942; and meanwhile poultry ration costs are 9 percent higher than in 1950, and about 75 percent above 1942. If not for the improvements which farmers have adopted in their poultry husbandry methods since the dates of those previous low prices, the present price relationships would bear even more harshly upon poultrymen.

For each of the principal poultry products, 1954 production is record high. The prospective outputs by year-end are: for eggs, 6 percent above 1953; for broilers, 8 percent above 1953; and for turkeys, 9 percent above 1953. In general, these increased supplies represent farmers' reactions to the generally favorable poultry prices in 1953. In 1953, farmers raised no more total replacement chicks than in 1952, but a larger proportion of the chicks were sexed pullets, and the result was 11 percent more pullets on hand January 1, 1954. This in turn contributed to a 4 percent larger egg production in January-August this year. An unchanged number on January 1, 1954 of turkeys for breeding has resulted in 9 percent more turkeys raised this year; and so it goes; small increases in the number of birds committed to be raised have nevertheless resulted in substantial rises in total output, which have in turn been a factor in the 1954 prices.

To the extent large supplies, as a response to previous favorable prices, are a factor in the present situation, we should examine the factors involved to see if they work both ways.

First, let us turn our attention to egg production. Production through mid-1955 is already "made" by the number of hens and pullets presently on farms. Sometime after mid-1955, and for a year thereafter, the volume of egg production will depend largely on the number of pullets saved from the replacement chickens to be raised in the spring of 1955.

The prospects for egg prices in the next few months, and their history for the past 6 months, make it quite clear that farmers' normal reactions will be to raise fewer replacement chickens in 1955. This would suggest that starting sometime next fall, egg prices should improve, at least to the extent of reestablishing the seasonal pattern which was only dimly apparent this year. In the period 1925 through about 1950, the poultry industry had exhibited a close degree of responsiveness to its cost-return situation for eggs, as expressed by the egg-feed price ratio. In the last 4 years that reaction seems to have become somewhat dulled, or

in 1953 and 1954 you might even say that it reversed; but these probably were due to special cases which there isn't enough time to discuss now. Because the price of eggs has continued so low so long, I think that the old association between the ratio and chickens raised will be restored, in its gross relation if not in terms of percentage change, and farmers will substantially reduce the number of chickens raised for laying flock replacement in 1955.

Barring culling of a sort that has never before developed, in every month from now until March or April egg production will be larger than in the immediately preceding month. Eggs will be plentiful, even more plentiful than they are now. Under those circumstances, I see no opportunity for monthly average egg prices to rise substantially in the next 6 months. Since U. S. average egg prices received by farmers are right now lower priced than in the spring of 1954, and the outlook doesn't favor a rise, it seems they'll be lower in March or April of 1955 than in the same months of 1954.

The first chance I see for egg prices to turn upward is about May or June 1955, if--and notice this if--if by then it seems so few replacement pullets are coming along that stored eggs, both shell and frozen, promise to become valuable property 4 or 5 months later.

Broilers are the next sector of the poultry business that I want to talk about. Broiler placements in specialized areas in the 2 middle weeks of October were a shade lower than comparable placements a year earlier, and the mere fact that this is noteworthy is illustrative of how non-responsive the broiler industry has been to the low prices which began about New Year's time 1954, and even earlier in some areas.

The reduced broiler placements are noteworthy because, except for 3 weeks in May and June, they are the first since March 1953 to be below comparable year-ago placements. Until early in October, the industry which sold its product 13 percent cheaper than a year ago was continuing to place chicks at a rate averaging 8 percent above the year before.

The probable explanation lies in the organization of the industry. "Financing" is what makes the wheels go 'round in broiler production.

"Financing" takes different patterns in different areas, but the general principle is that the financier puts out chicks to a contracting farmer, provides the feed, fuel for the brooders, medications, and some supervision through the services of a fieldman. The farmer supplies the house and the equipment, and performs all the labor. When the chickens are sold, the farmer is paid a percentage of the return above the charges for the furnished supplies, or else he is paid a stipulated number of dollars per week per thousand chickens. Often the contracts provide bonuses for superior efficiency in feed conversion.

Financing has many points in its favor, but these points don't include a tendency to promptly reduce production when prices fall to seemingly unfavorable levels. In addition to this built-in tendency toward high-level

production, the considerable degree of specialization in broiler enterprises, and the frequent absence of attractive alternative enterprises, will tend to hold up broiler output.

The built-in features in broiler financing which discourage cuts in output are these:

- (1) The industry is built on volume; mass production is its basis. Most of the financiers are feed dealers or processing plants, and their purpose in financing broilers is to assure or to develop high-volume operations for their primary enterprises.
- (2) The costs of individual financiers probably have been covered even during 1954, except on flocks suffering high mortality or sub-normal feed conversion. Therefore, the individual financiers are not often interested in reduction. This is despite the fact that many feed manufacturers feel that too large a share of the capital in the enterprise is "promotional", and their trade association has resolved in favor of farmers putting up a larger proportion of the risk capital.
- (3) Because farmers so often put up little or none of the risk capital, and because their alternatives may be few, they will grow a batch of chickens even if the market situation would give them considerable pause were they risking their own money.
- (4) The broiler industry has not been very successful in trying to predict broiler prices so far in advance as to permit adjustments of baby chick orders to conform to financiers' individual expectations. Therefore, instead of trying to predict broiler prices for some forward period, and timing their production to hit anticipated high spots, many financiers seem to spread their flocks almost uniformly through the year, and thereby at least to assure themselves a price fairly close to the annual average. To the extent that this belief and policy exists, a financier who reduces or skips a few weeks' placements may feel that he is removing himself from what may be the high market of the year.
- (5) Finally, there may be some feeling among financiers that if the industry is to eventually adjust to a lower level of output, the subsequent benefits will accrue to those who then are in heavy production, not to those who reduced or discontinued their output.

Since these are among the dominant factors motivating broiler financiers and farmers, there is no basis for expecting a sharp contraction in broiler output in 1955. As a matter of fact, there might even be a small

increase. If there is no substantial decrease in production, average broiler prices in 1955 are not likely to exceed 1954.

For turkeys, the outlook for the remainder of 1954 is probably of greater interest to producers than is 1955. You know that the crop this year is record large, with 16 percent more light-breed turkeys than last year, and 6 percent more heavy-breed birds. Farmers' prices in the last 3 months have averaged about 5 cents lower than in the same months of 1954. The most recent, though sketchy, price reports that are available show that at the farm heavy-type hens and Beltsville turkeys are perhaps 5 or 6 cents below last year, while heavy-breed toms are 9 or 10 cents lower.

Notice that these changes result in a much wider price differential than last year between family-size turkeys and heavy toms.

The question confronting the turkey grower is: are these prices likely to hold, or might there be a change that would induce him to either sell quickly, or to hold for a rise. Frankly, I don't know. But I can cite a few factors, some on the plus side, some on the minus, which are relevant to your judgment of the situation.

First, on the plus side, is the fact that disappearance of turkey in recent months seems to be good. Despite the fact that almost half of this year's expanded crop has already been slaughtered (if farmers adhered to their August 1 intentions), the fact is that the storage holdings are only slightly above last year, and that the extra output to date must therefore mostly have been eaten.

But the other side of that encouraging development is the fact that the large consumption of turkey has been accomplished at the expense of extreme price concessions. September prices to growers averaged 5 cents below last year. Eastern chains have advertised oven-ready turkeys at 45 to 55 cents per pound, retail. A large part of the public is now conditioned to accept such prices as "normal" for turkeys.

The chains evidently feel that this "conditioning" will be reflected in what consumers will willingly pay for turkey later, and they are reported to be more than normally interested in trying to keep turkey prices at about present levels at Thanksgiving. Therefore, it is pretty much a tug-of-war and battle of wits to see whether buyer or seller can gain the upper hand in the bargaining process.

By the way, if only a few dominant buyers can assure themselves of turkey supplies justifying Thanksgiving retail prices at some particular level, many competitors will feel obliged to advertise prices not much different. If they have to, the big retailers are willing to sell holiday turkeys at less than a usual markup.

Incidentally, the fact that they have done this in the past has conditioned the buying public to turkey prices at Thanksgiving lower than

what they could reasonably expect at other seasons. As a consequence, the public was slow to take to year-round turkey consumption. Even with the Beltsville and other turkeys available the year-round, about half of our annual consumption of turkeys is still in November and December. By dint of sub-normal margins among retailers at the holidays, the turkey industry gets a good distribution of its product at that season; but it may be at the cost of a more limited turkey consumption the rest of the year.

In view of the current prices, most turkey producers are likely to wish for a smaller output in 1955. But there are several steps between the wish and the achievement.

One of the steps concerns the number of turkey breeder hens that are held back for the production of hatching eggs. The normal value of a turkey hatching egg is so high compared with its salvage value in edible outlets, that there is a great temptation to incubate every good-quality egg that is laid. And in turn there is a great temptation to brood every good poult that hatches. Therefore, in a year such as 1955 when the economic indicators suggest a good turkey year only if the crop is reduced from this year, it will be especially appropriate for growers to check monthly upon the data contained in the turkey breeder reports, and in the hatchery reports.

UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

THE OUTLOOK FOR FATS, OILS, OILSEEDS AND PEANUTS IN 1955

Statement presented by S. Gershben at the 32nd
Annual Agricultural Outlook Conference,
Washington, D. C., October 26, 1954

Peak supplies of food fats are likely in 1954-55 since beginning stocks were about the same as a year earlier and production will be slightly larger. More lard will be produced, and about the same quantity of other fats. Production of food fats is expected to be moderately in excess of domestic use and commercial exports, but export sales of cottonseed oil by CCC may prevent an increase in stocks. Prices of most food fats during a large part of this crop year are likely to average near present levels but somewhat lower than in the past year.

Exports have become an increasingly important market for food fats and oils.

During the last two decades, U. S. production of food fats has increased much more than has consumption. Consequently, increasing quantities have become available for export. In calendar years 1951-53, output was greater than total disappearance despite a high level of exports. The same would have been true in 1954 if the Government hadn't sold large quantities of cottonseed oil for export at prices well below those in the domestic market.

Inedible tallow and greases are the major domestic soap fats. The postwar decline of consumption of these fats appears to have been arrested by greater nonsoap use such as fatty acids and animal feeds. Exports in the past crop year were at a record level. Prices rose as total disappearance was great enough to require a reduction in stocks. Prices in 1954-55 to a large extent will depend upon exports, as little change in supply and domestic use is expected.

Fortunately, the outlook for exports of all fats, oils and oilseeds is good.

Total U. S. exports of fats, oils and oilseeds in 1954-55 are expected to be near the record volume shipped in 1953-54. Favorable factors in the export outlook are: production in other areas of the world will not differ much from last year; the dollar position of several major importing countries has improved from a year ago; CCC is selling its oils and oilseeds at competitive world prices; and certain surplus fats and oils can be sold for foreign currencies under Public Laws 480 and 665.

Production of soybeans in 1954 is estimated at a record 331 million bushels. Adverse weather cut yields below average but the acreage harvested for beans was at a peak, primarily reflecting a shift from corn, cotton and wheat which were under allotments and favorable prices for soybeans.

The export market has become an increasingly important outlet for U. S. soybeans. Prior to World War II, Manchuria was the major source of supply going into world trade, shipping an average of 69 million bushels in 1935-39. Since then, exports from this area have been comparatively small and the United States now is the major exporter. Shipments from China-Manchuria in calendar 1953 totaled about 24 million bushels. In Europe, as well as in Japan, beans are desired in preference to the products in order to utilize the available crushing capacity and provide employment. Also, in the Orient, a substantial percentage of the soybeans is used in food. Hence, many importing nations are willing to pay a premium for beans. Exports in the crop year which ended on September 30, 1954 reached a record of about 40 million bushels. Prospective exports in 1954-55 are estimated at about 50 million bushels.

If exports total about 50 million bushels, then about 250 million would be available for crushing. Although this would be much larger than the comparatively small quantity crushed a year ago, it would not differ much from the quantities crushed in the 1950 and 1951 crop years.

Last year, prices to farmers for soybeans trended upward from \$2.41 per bushel in October to a peak of \$3.55 in May, reflecting the short crop and record exports. During the first half of October, farmers received about \$2.50 per bushel for their beans. With the crop now moving in volume, prices have weakened somewhat. However, some increase over \$2.50 per bushel is probable later in the crop year (primarily because of an expected increase in meal prices), but the rise is not likely to be nearly as great as last year's upward movement.

If the acreage harvested for soybeans in 1955 is about the same as this year (restrictions on corn, cotton and wheat will continue in 1955) and growing conditions are average, the crop would total a record 360 million bushels.

With a crop of this size, exports at 50 million bushels, and a small increase in ending stocks, crushings would total about 280 million bushels, 28 million more than the previous record. The oil produced from these crushings probably would be in excess of domestic use and exports.

The quantity of meal produced from 280 million bushels of soybeans would be up about 10 percent from 1954-55. However, because of reduced output of cottonseed meal, total oilseed meal production would be only slightly greater than this year. Little change is expected in supplies of high protein feeds per grain-consuming animal unit because some increase in hog numbers is likely. Hence, prices of oilseed meals in 1955-56 could be well maintained. The favorable outlook for meal prices is particularly important as soybean meal comprises over half the value of the products obtained from a bushel of beans.

As stated above, most importing countries want oilseeds, preferably soybeans. Consequently, exports could rise considerably above 50 million bushels, if prices are attractive to importing nations. Increased exports would bolster prices. A high level of exports of U. S. beans is contingent upon no sharp increase in exportable supplies from China.

Support for soybeans and cottonseed is discretionary. The 1954 soybean crop is being supported at 80 percent of parity (\$2.22, national average farm price). As yet, no support for the 1955 crop has been announced. A support program on cottonseed might have a strengthening effect on soybean prices through its possible influence on oil prices.

Reports as of October 1 indicate that output of cottonseed in 1954 may total 5,133 thousand tons, 24 percent less than a year ago and the smallest since 1950. The decline primarily reflects acreage allotments on cotton, which are in effect this year for the first time since 1950.

Prices received by farmers so far this crop year have been around \$60 per ton. This is more than support and well above last year's level. Prices probably will average near this value. Present meal prices are about a third higher than a year ago and likely will remain higher. Oil prices now are slightly lower and linters are about the same price as a year ago.

In most years, the value of the oil has comprised at least half of the total value of the cottonseed products, while meal accounted for about one-third, linters about 10 percent and hulls the remaining 3 or 4 percent. This year, the oil value is lower but meal values are greater.

As of October 13, tenders to CCC of 1954 crop cottonseed oil totaled 10 million pounds. A year earlier, tenders of 1953 crop oil totaled 117 million pounds. Total tenders of 1953 crop oil amounted to 384 million pounds, crude basis.

The U. S. Department of Agriculture has announced a marketing quota of 10 million bales of cotton for the 1955 crop. Compared with this year, a cotton crop of this size would be reflected in around a 300 million pound drop in oil output and a 450,000 ton decline in cottonseed meal production.

Output of flaxseed was in excess of domestic use in 1947-49 and a large stock of oil was accumulated. The 1953 crop also was well above domestic use but stocks declined because of large sales for export from Government stocks at prices well below those prevailing in the domestic market. A further decline in stocks during this crop year is likely because of additional CCC sales for export. Producers delivered about 30 percent of the 1953 crop to CCC under the support program and probably about 25 percent of the 1954 crop also will be taken over by the Government. The take-over of 1954 crop flaxseed by CCC would be larger if poor growing conditions hadn't reduced output. Prices for the 1954 crop will average around the support level of \$3.14 per bushel, 70 percent of parity.

Farmers increased their plantings of flaxseed by 26 percent in 1954 mainly on land taken out of wheat because of allotments. Practically all of the increase was in North and South Dakota and Montana. Minnesota actually cut its acreage. If plantings in 1955 are about the same as this year (allotments on wheat in 1955 will be 11 percent less than a year ago) and growing conditions are normal, the flaxseed crop would total about 50 million bushels. A crop of this size would be about 30-40 percent above probable commercial use at 1954 crop prices.

Price quotations for linseed oil in Europe (latest quotations are 7.5 cents per pound, c.i.f., Europe compared with 14 cents Minneapolis) suggest that world prices for flaxseed are substantially below the U. S. support for the 1954 crop. A flaxseed surplus of the magnitude indicated for the 1955 crop would exert downward pressure on U. S. prices. As yet, no support has been announced for the 1955 crop.

Production of peanuts generally has been greater than food and farm uses. This would have been true for the 1954 crop year also if growing conditions had been normal. Although there was little change in the acreage picked and threshed, adverse weather reduced the crop about a third below last year's level. With imports limited to 1.7 million pounds, shelled basis, stocks will be reduced to an absolute minimum. The import duty on these peanuts is 7.0 cents per pound of shelled peanuts. About the only peanuts likely to be crushed will be those which do not meet the standards for other uses. Usually, farm prices fluctuate around the support level. However, with a crop as small as the present one, prices probably will rise above support.

The 1955 national allotment for peanuts is 1,610,000 acres, the minimum set by law and the same as a year earlier. If growing conditions are normal, production will be somewhat in excess of food and farm uses. Present estimates indicate that supplies will be at a level which will necessitate support at about 90 percent of old parity in 1955.

Under the present minimum allotment, production of peanuts is likely to continue to exceed food and farm uses for some time ahead. For example, under the Agricultural Act of 1954, the support price for peanuts produced in 1959 probably will be at least 20 percent lower than the present level, assuming no change in the parity index. (This is so because by that time we will have made the full transition from old to new parity.) Since the demand for peanuts is relatively inelastic, a 20 percent drop in price normally would be associated with an increase in consumption of around 10 percent. Consequently, in 1959-60 consumption probably will be larger than the present level of 6.4 pounds per civilian farmers' stock basis. Sufficient peanuts to meet a 10 percent increase in use could just be obtained with the present legal minimum allotment (provided the entire allotted acreage was picked and threshed) and the 1949-53 average yield of 901 pounds.

However, not all the allotted acreage will be harvested. Increasing yields probably will more than offset the deficiency resulting from failure to utilize the entire allotment. Yields have been trending sharply upward, and further increases are likely. For example, if yields in 1959 equal the 1953 peak of 1,031 pounds per acre, 1,488 thousand acres (the legal minimum of 1,610 thousand less the estimated 7.6 percent that may not be harvested) would produce 1,535 million pounds of peanuts, roughly 100 million more than needed to meet estimated food and farm uses in that crop year.

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UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

THE OUTLOOK FOR FEED IN 1955

Statement presented by Malcolm Clough, at the
32nd Annual Agricultural Outlook Conference,
Washington, D. C., October 26, 1954

The total supply of feed grains and other concentrates for the 1954-55 season is only slightly smaller than the record supply in 1950-51 and 4 percent larger than in 1953-54. Feed grain production this year was a little larger than in 1953, since the cut in the corn crop was more than offset by larger production of other feed grains. Most of the increase over a year earlier, however, is accounted for by the larger carryover stocks of feed grains, the bulk of which are under loan or owned by Commodity Credit Corporation.

This is the seventh consecutive year in which total supplies of feed concentrates have been maintained at a high level. It should be noted here that we have had a series of generally favorable growing seasons and large carryover stocks. In each of these 7 years supplies have been larger than in any year prior to 1948, with the exception of 1942.

As has been the case in the past two years, supplies of feed grains are very large in the Corn Belt, but much below average throughout most of the South. The contrast seems even sharper this year, as record supplies of feed grains are on hand in the northern Corn Belt, while supplies are short in much of the southern half of the country from the Rocky Mountains to the Atlantic Coast. The poor condition of pastures and ranges in this area also has resulted in the feeding of more hay and supplements than usual early in the season. An emergency feed program has again been established to aid farmers in the drought area.

The increase in total feed concentrate supplies this year is expected to be accompanied by a 3 or 4 percent increase in the number of grain-consuming livestock. Allowing for this prospective increase, the 1954-55 supply per animal unit is about the same as last year and slightly above the 1947-51 average. If the rate of feeding per animal unit in 1954-55 is about the same as the 1947-51 average, the total supply of feed concentrates would be sufficient to meet 1954-55 requirements and leave a carryover into 1955-56 nearly equal to the record level at the beginning of the current season.

The corn supply of 3,868 million bushels is a little smaller than in 1953-54, but about 8 percent above the 1947-51 average. This includes a crop of 2,950 million bushels and a record carryover of 918 million bushels. The 1954 crop is expected to fall somewhat below total utilization during the 1954-55 marketing year and a smaller carryover is in prospect on October 1, 1955. This reduction would be principally in stocks under the price support program, since the bulk of the corn carryover this year is under loan or owned by CCC. Supplies of oats, barley,

and sorghum grains are all much larger than last year, and larger carry-over stocks of these grains are in prospect in 1955-56. The increase in the stocks of these grains probably will about offset the prospective reduction in carryover of corn, maintaining the total carryover of all feed grains into 1955-56 at near the record level of this year.

Exports of feed grains in 1954-55 are expected to be larger than in 1953-54. The 1954 production of feed grains in Western Europe, the world's largest importing area, is about 7 percent below 1953. Import requirements in this area may exceed those of 1953-54, despite prospects for the use of larger quantities of poor-quality wheat for feeding purposes.

The aggregate export availabilities in the major exporting countries of the Northern Hemisphere, other than the United States, appear to be somewhat below the very high level of 1953-54, although Canada still has a large supply of barley. In the Southern Hemisphere the 189 million-bushel Argentine corn crop, harvested last spring, was the largest since 1947, providing a larger supply for export.

The total 1954-55 supply of high-protein feeds in the United States is expected to be about the same as in 1953-54. While the production of soybean cake and meal may be nearly a million tons larger than the 5.0 million tons produced last year, this is expected to be about offset by smaller supplies of cottonseed meal and dried milk products available for feeding. Supplies of most of the other major protein feeds are expected to be maintained at about the 1953-54 level. With livestock numbers increasing, the high-protein feed supply per animal unit may be a little smaller than last year.

The total supply of hay is slightly larger than last year, but supplies are again very poorly distributed by areas. Hay supplies are generally ample in the northern part of the country, but are very short in many of the Southern States and in Missouri and some Mountain States. Furthermore, feed shortages have been accentuated in these areas by the very poor condition of pastures and ranges.

Feed prices in the 1954-55 season are expected to average near the 1953-54 level, although some feeds will be higher and others lower. Corn prices may average a little higher in 1954-55 than last year, as a result of the smaller corn crop, which probably will make it necessary to withdraw corn from CCC stocks later in the season. Corn prices, which have been below the national average support level during the past 2 years, may rise to or above the 1954 support price before the end of the marketing season. The quantity of corn going under price support is expected to be smaller than in the past two years. Prices of oats and barley have been unusually low relative to corn prices this summer, as big crops of these grains were harvested, and prices of these two grains are expected to be comparatively low again in 1955. Soybean meal prices probably will average lower during the current feeding year and cottonseed meal prices higher than in 1953-54, reflecting the marked changes in supplies of these feeds.

Looking ahead to 1955-56, with a normal growing season, above-average feed grain supplies are likely again next year, in view of the big carryover in prospect. Acreage allotments are in prospect for the 1955 corn crop, which will again have a tendency to reduce corn acreage in the commercial area. Total acreage of feed grains, however, is expected to be maintained at or near the 1954 level. In 1954 the total acreage seeded to oats, barley, and sorghums was increased about 13 million acres over 1953, largely as a result of the 21 million-acre reduction in wheat and cotton. Another 10 million-acre reduction in the combined acreage allotments for wheat and cotton in 1955 will leave an increased acreage available for feed grains and forage crops next year. Stocks of corn on October 1, 1955, are expected to be reduced to around 725 million bushels. A carryover of this size could be reduced by October 1, 1956, to near the carryover allowance of a little under 500 million bushels provided for in the Agricultural Act of 1954, if a moderately poor growing season next year should reduce yield as much as 3 bushels per acre below normal.

Consumption Prospects

Deciduous Fruits

Citrus Fruits

Agriculture-Washington

The new crop of Valencia oranges, which will be harvested mainly during next spring and summer, also will be larger than the 1953-54 crop if production turns out as large as seemed likely on October 1.

Prices for new-crop oranges this fall are declining seasonally and may drop somewhat below the levels of the fall of 1953. Carryover stocks of frozen and canned orange juice are larger this fall than last, and demand for oranges for processing may not be as strong, especially next spring, as in the 1953-54 season. This together with prospective larger Valencia production indicates that prices for Valencia oranges next spring and summer are unlikely to rise to the relatively high levels of this period of 1954.

About 56 percent of the sales of the 1953-54 crop of oranges was processed. In Florida, output of frozen orange concentrate was over 65 million gallons, about 41 percent larger than in 1952-53. Increased packs of frozen and canned orange juice in 1954-55 seem likely.

The outlook for grapefruit in 1954-55 is for production a little smaller than in 1953-54 and for prices not greatly different from those of last season. A heavy reduction in Florida this season more than offsets substantial increases in Texas and Arizona. With the prospect that fresh use of the 1954-55 crop will be about as large as that in 1953-54, the volume processed, mostly as canned single-strength juice, probably will be smaller this season. About 48 percent of sales from the 1953-54 grapefruit crop was processed.

Prospects are favorable for another large lemon crop in California. Much of the new crop again is expected to be made into frozen concentrate for lemonade. The rise in popularity of this relatively new product is second only to that of frozen orange concentrate.

Foreign Trade in Fruit

Increased exports of fresh and processed fruits seem likely in the year ahead. Larger exports of citrus probably will go to Canada, our best customer for fruit. In Europe, which for many years has been an important market for our fruits, improved financial conditions in some countries recently have led to reduction of import restrictions for fruit and fruit products. Further relaxation is expected during the current season. Reduced citrus production is in prospect in the Mediterranean area. Keeping quality of the larger European crops of apples and pears has been impaired by cool, wet weather this summer. The United States has larger supplies of citrus, apples, and dried prunes available for export in 1954-55. This should mean increased exports to Europe of apples and dried prunes next winter and spring, and citrus next spring and summer.

As usual, heavy imports of bananas from foreign countries and shipments of canned pineapple and pineapple juice from Hawaii, can be expected throughout the coming year. Imports of apples are expected to be smaller in 1954 than a year earlier. Other imports of fruits will make up but a small percentage of United States supplies and will arrive mostly during months when supplies from our own crops are seasonally light.

Tree Nuts

With a large reduction in pecans more than offsetting increases in almonds, filberts and walnuts, total production of these four tree nuts in 1954 is about 12 percent under the record 1953 crop though near average. Grower prices for the short pecan crop are expected to average considerably above prices for the heavy 1953 crop. But somewhat lower prices seem likely for the other three tree nuts.

Imports of Brazil nuts, which go heavily into the Christmas trade, are smaller than a year ago. But imports of cashew nuts may be about as large.

In 1955, the pecan crop may be larger, and the almond, filbert, and walnut crops may be smaller than in 1954.

Demand and Farm Cost Outlook for Fruit

Demand for fruit is expected to be at least as good in 1955 as in 1954. Income of consumers will be as high as, and perhaps higher than, this year.

Supplies of materials used in producing fruit, such as fertilizer, pesticides, and containers, are expected to be adequate for the 1955 crops. Prices for these items probably will be much the same as in 1954. Farm wage rates are likely to be slightly lower in 1955 than in 1954. Cost rates for other items may not be greatly different from those of 1954.

* This represents the highlights of the 1955 Outlook issue of *
* "The Fruit Situation" for October 1954, *
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* Agricultural Marketing Service *

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UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

X THE OUTLOOK FOR MEAT ANIMALS IN 1955 X

Statement presented by Harold F. Breimyer at the 32nd
Annual Agricultural Outlook Conference,
Washington, D. C., October 26, 1954

These are years of a large production of meat animals and of meat. This year's record production will be approximately repeated in 1955. With demand for meat expected to continue strong, price changes in prospect for next year are small. Major differences are in prices of hogs, which will remain below their highs of last spring. Hog production will not be quite as profitable as in 1954, nor will incomes from beef cattle equal those of 2 or 3 years ago. Nevertheless, incomes from meat animals will on the whole be well maintained, and as compared with cash crops that are restricted by quotas, the outlook for meat animals appears to be fairly favorable.

This is the summary. A few charts will describe our present position and amplify the prospects for next year. 1/

Production of red meat in 1954 is totaling about $25\frac{1}{2}$ billion pounds. (Chart, Red Meat and Poultry Meat Production, 887-54(7).) This is a new high and is up 4 billion pounds or almost 20 percent from 5 years ago. Compared with earlier years output of beef is up most. Output of poultry meat, though not a red meat; also has increased a great deal. Total meat output, continuing large, might approach or reach 26 billion pounds in 1955.

Stimulating the uptrend in meat production has been a very strong consumer demand for meat and generally abundant supplies of feed. Personal incomes of consumers climbed rapidly after the war and expenditures for meat did likewise. (Chart, Meat and Income, 221A-54(8).) Since 1952 the demand for meat, as measured approximately by the retail value of consumption, has leveled out. However, all indications are that it has been fully as strong in 1954 as in 1953. It is expected to remain at about the same strength in 1955.

While total meat animal production will change only little, the direction seems to be up for hogs, down for cattle. The $91\frac{1}{2}$ million pigs saved in 1954 were 12 percent more than last year's 13-year low but much below the 102 million in 1951. (Chart, U. S. Pig Crops, 682-54(7).) Hog production is likely to continue upward but more slowly than this year. The pig crop will be reduced in drought areas next spring but will be increased in many northern areas where the corn crop is large and only part of it eligible for price support. The net change is estimated as an increase of 2 to 5 percent in spring farrowings.

1/ Outlook Charts, 1955 contain all the charts referred to except Cattle Slaughter by Classes, which is on the cover of the Livestock and Meat Situation released October 15, 1954.

This year's expansion in hog production is accounted for by an above-average hog-corn price ratio, which for 19 consecutive months through August was above 13. (Chart, Hog-corn Price Ratio and Hog Slaughter, 885-54(7).) Following the production increase, since July more hogs have been slaughtered than a year ago. Slaughter in 1955, continuing upward, may be about 5 million head or 7 percent larger than this year. The difference will be greatest in the winter and spring, when 10-12 percent more hogs will be slaughtered than at the same time this year. By the fall of 1955 the hog slaughter rate will be only a little above this year. The 79 million slaughter estimated for 1955 will be intermediate between highs and lows of recent years.

The outlook for cattle next year is a question of the behavior of the cattle cycle. Numbers of cattle on farms, after expanding fast from January 1949 to January 1953 and then more slowly to a new high of 95 million at the beginning of 1954, are apparently being reduced slightly during 1954. (Chart, Cattle on Farms January 1, 430A-54(2)) Will we now proceed through a typical downward phase of a cattle cycle, with numbers decreasing for the next several years? Are producers now at a stage where they will progressively reduce their herds?

So far, the present cattle cycle has followed the same path as previous ones. Trends in slaughter, for instance, show the usual increase first in steer slaughter, which has now tapered off; next in calf slaughter; and then in slaughter of cows and heifers. (Chart, Cattle Slaughter by Classes, 1119-54(9).) These typical trends at this stage of the cattle cycle reflect increasing pressure on cattle producers to provide enough feed and to maintain their current income. Because of the large slaughter of young stock this year fewer beef heifers and steers will be on farms next January than last. With about 15 percent more cows being slaughtered this year than last, inventories of cows next January are not expected to be any larger than last January.

Even though the expansion in total cattle numbers and in breeding herds is being halted, the capacity for production remains large. The calf crop next year will probably be almost as large as this year. Moreover, except when drought interferes our feed resources are probably sufficient to maintain present cattle numbers. Hence, any reduction in cattle herds will likely be moderate. Our estimate is for a few more cows to be slaughtered next year than this, at least partially offsetting the fewer steers available for slaughter and holding the total beef output close to that of this year. Cattle inventories would then be down somewhat further in January 1956.

Though this appears the most likely prospect, weather conditions--which none of us can predict--will have much influence on actual slaughter and inventory changes in 1955. Very favorable weather would reduce slaughter while severe drought would increase it.

Sheep and lamb slaughter in 1954 has probably been large enough to pull down sheep inventories slightly next January. This would be the third reduction in a row, and the 1955 inventory would be only a little above the 1950 low. (Chart, Stock Sheep and Lambs on Farms January 1, 431-54(2).) The annual lamb crop, however, has increased for four years in succession, partly because the lambing percentage has improved. At these low levels of

production lamb is a relatively scarce meat, providing less than 3 percent of the total red meat supply. Lamb supplies will probably be a little smaller next year than this.

Summing up prospective meat supplies, consumption of beef per person, which has jumped to a record 79 pounds this year, may be reduced a little next year but will remain large. Consumption of pork will likely rise a bit and will be neither especially high nor especially low. The total for all red meats is expected to stay at about the 154-156 pound level of the last two years. (Chart, Consumption Per Person, Red Meat and Poultry Meat, 886-54(8).)

There is little reason to expect marked changes in prices of meat or of meat animals in 1955. Retail prices of Choice beef cuts, now almost a fourth below their 1951 highs, will probably not differ much next year. Prices of the lower grades of beef have declined more--about a third--and will probably continue low relative to the higher grades next year. Prices of pork products will be lower next year than this but probably still at about the average of the last 5 years.

Prices of the higher grades of slaughter cattle may again hold up well, while those of grass cattle and other cattle of lower grades will again be discounted considerably. Prices of hogs will remain substantially below the highs of last spring but otherwise will average not greatly below this year. Hog prices seem likely to retain about an average relation to the price of corn. More stability than this year is in prospect for lamb prices, but no appreciable rise is expected. Returns from wool will be up, as supports at 62 cents a pound have been announced for the 1955 clip.

Profitableness of meat animal production will vary a great deal by regions. Areas where feed is short and priced high will be in much worse position than those having an abundance of feed. Hog production will likely show about average profits, though less than in 1954.

A continued emphasis on livestock production is in prospect for the longer future. If acreage-reducing allotments continue on corn, the extent of compliance with them will have much to do with the level of hog production. The experience this year suggests that substantial non-compliance may tend to stimulate production of hogs. If support prices for corn are reduced under the newly granted authority for flexibility, this too will lead to some expansion in hogs. Moreover, the need to maintain total farm incomes will place emphasis on livestock as a possible source. Nevertheless, corn support programs will still have a considerable stabilizing effect on hogs and hog production will likely stay within reasonable limits.

If we are indeed entering a period of gradual reduction of cattle numbers, annual slaughter will be held high for at least a year or two as sale from inventories adds to that from current production. Appreciable price recovery will be delayed during the process. The adjustment period will require attention to keeping production costs low, often by making best use of roughage. For many producers it will be an opportunity for improving the quality of breeding stock. So long as this Nation continues to grow in productiveness and incomes, a new uptrend in cattle production can eventually be supported. Higher prices, and an expansion to 100 million cattle by the early 1960's, are not unlikely prospects for the longer future.

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UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

X THE OUTLOOK FOR VEGETABLES IN 1955 X

Statement presented by Harry Sherr at the 32nd
Annual Agricultural Outlook Conference,
Washington, D. C., October 26, 1954

A fairly good year for vegetable farmers across the country is in prospect for 1955. In the first place, the continuation of a high flow of income to consumers in prospect for 1955, a subject discussed in some detail by previous speakers, will mean that consumer demand for food probably will be at least as strong as in the present year. With the population larger next year and civilian per capita consumption of fresh and processed vegetables likely to continue close to that indicated for 1954, total consumer demand for these farm products will likely be higher at prices approximating those in 1954. If production is reasonably in balance with anticipated utilization, gross receipts by vegetable producers in 1955 probably will be little different from those expected for this year. On the other side of the coin, current prospects are that production costs for vegetable growers in general probably will be no higher than they have been this year.

COMMERCIAL FRESH VEGETABLES

Prices growers receive for commercial vegetables produced next year for fresh market sale should average reasonably close to those of this year, barring over-planting or distortions of the usual marketing patterns resulting from weather-induced overlapping of harvesting seasons. Consumer demand is expected to be at least as strong as in 1954.

For the coming winter season, the general level of farm prices of fresh vegetables will be influenced not only by the tonnage being harvested but also by the level of stocks at the beginning of the year, imports of fresh vegetables, and competition from processed vegetables. Prospects for each of these 4 factors are as follows:

1. Production: It is still too early to forecast the tonnage to be harvested this winter. At present, official reports on prospective acreage are available only for the winter crops of cabbage, artichokes, kale, and shallots. The latter is the only vegetable for which the indicated acreage is larger than that harvested in the winter of 1954.

2. Stocks: Indications are that storage holdings of cabbage and onions on January 1 will be somewhat smaller than a year earlier, and those of carrots probably no larger. This is expected on the basis of the smaller late-summer production of onions this year than last, and the reduced early-fall crops of both cabbage and carrots.

3. Imports: If growing conditions in Mexico and Cuba are favorable during the next several months, receipts of fresh vegetables--particularly cucumbers, green peppers and tomatoes--from abroad during January-March may run a little larger than a year earlier. Favorable prices in the United States last winter encouraged growers in Mexico to expand their plantings this year of winter-season vegetables. Also transportation facilities between important growing sections in western Mexico and this country have been improved.

4. Competition from processed vegetables: Current prospects are that competition between fresh and processed vegetables this winter will be quite similar to what it was during the winter of 1954.

VEGETABLES FOR COMMERCIAL PROCESSING

Indications are that total supplies of processed vegetables during the present marketing year will be somewhat smaller than in 1953-54. Reports on vegetable production for commercial processing point to smaller packs of both canned and frozen vegetables in 1954 than last year. However, supplies probably will not be down by as much as the pack declines indicate since carryover stocks of both major groups of processed vegetables were larger than at the beginning of the 1953 pack season. Civilian consumption rates for a number of the canned and frozen items can be maintained during this marketing year at the rates of a year earlier only by drawing heavily on stocks. Accordingly, carryover into the 1955 pack season would be smaller.

The civilian demand for processed vegetables in 1954-55 is expected to be at least as strong as in the preceding marketing year. If the movement of supplies into consumption during the next several months equals the rate anticipated, commercial vegetable processors can be expected to produce larger packs of a large number of canned and frozen vegetables in 1955 than they did in 1954. Accordingly, the acreage planted to many of the processing vegetables next year and prices received by farmers for these crops may be up somewhat from this year's levels. Green peas is one of the important commodities for which increased acreage and prices are in prospect. On the other hand, snap beans and corn for processing may be the major exceptions since supplies of both the canned and frozen products available for distribution during 1954-55 appear rather large.

POTATOES

Potato prices during the next 5 to 6 months are expected to average much higher than the very low ones farmers received from fall 1953 through the winter of 1954. Consumer demand for potatoes in the next several months probably will be about equal to that of last year, but supplies will be a little smaller. The 1954 late crop, which will account for most of the supplies available until next spring, has been estimated at 4 percent below that of 1953; the indicated acreage to be planted for winter harvest in Florida and Texas is also down; and imports will be smaller through the winter months because of the poor crop in Canada this year.

There is some danger that prices this fall and winter may encourage farmers to overextend the acreage they plant to potatoes for harvest after mid-spring. If weather is normal next year, even moderately larger acreage with average yields of recent years would result in a much heavier output than in 1954 and lower prices for a large part of the 1955 crop. In 1954 unfavorable growing conditions in several important producing States--mainly in the intermediate- and late-season harvesting regions--kept production fairly close to the national supply suggested in the Department's Guides.

The Federal potato marketing agreements and orders now in effect in 7 major producing areas should aid growers in disposing of the 1955 crop through better marketing practices. But, if supplies are much heavier than those from the 1954 crop, the effectiveness of these orders in maintaining adequate returns to farmers through orderly marketing--by means of grade, size, quality and maturity regulations--would, of course, be limited.

SWEETPOTATOES

Supplies of sweetpotatoes between now and about mid-1955 will be much smaller than those of a year earlier. The 1954 crop is estimated at 15 percent below that of a year earlier and the second smallest of record since 1881. With consumer demand during the coming months likely to be close to that of year earlier, prices farmers receive for 1954-crop sweetpotatoes probably will average somewhat higher than those received for the 1953 crop.

The higher farm prices in prospect for the 1954 crop are expected to encourage farmers to increase their plantings of sweetpotatoes next year. However, the relatively high labor requirement for growing, handling and harvesting sweetpotatoes; problems with both disease and pests; and the lack of adequate storage facilities in many areas may serve to moderate any increase in plantings.

Farmers should keep in mind that even if the acreage planted to sweetpotatoes is no larger next year than this year, given normal weather, sweetpotato production in 1955 will be larger than the indicated 1954 crop. This year unfavorable weather reduced yields per acre in many areas, particularly in the South Atlantic States, Texas, Alabama, and Mississippi.

DRY EDIBLE BEANS AND PEAS

Supplies of dry beans during 1954-55 are expected to be approximately equal to those of a year earlier. This is less than was anticipated about September 1, as unfavorable weather in several areas during September and continuing into October resulted in heavy harvesting losses and probably increased the "clean-out" loss, especially in Michigan. With the total domestic utilization expected to continue about as large as in 1953-54 and exports a little lower, prices farmers receive for 1954-crop beans probably will average about the same as for 1953-crop beans even though the support level is lower.

The composition of the total dry bean supplies by various types is not as good as it was in 1953-54. Based on October 1 production indications, supplies of pinto, small red, and pink beans during the present marketing year are expected to be much larger than anticipated domestic utilization and exports combined. To a smaller degree, the same holds for both standard and baby lima beans. On the other hand, short to adequate supplies of the other classes of beans are in prospect, with pea beans being very short. Prices farmers receive for each class of dry beans will reflect the corresponding supply-demand situation, and for dry beans as a group probably will average fairly close to that for the 1953 crop.

The less favorable make-up of dry beans supplies by classes probably will tend to limit exports in 1954-55. Indications are that shipments to European countries are likely to be restricted by the limited availability of white beans. Shipments of pinto beans to Mexico are expected to run considerably lower than those in 1953-54 because of the better crop prospects in that country this year. Increased exports of pinto beans to several other areas are not expected to be sufficiently large to offset the decline to Mexico.

Farm price prospects for dry field peas in 1954-55 will be more favorable than anticipated earlier if the broad and strong export demand which developed in the past few weeks continues. Supplies of dry peas are expected to be much larger than in 1953-54. Total domestic utilization (food and nonfood) in 1954-55 should be relatively close to that of a year earlier. Our exports of dry peas during the present marketing year are expected to at least equal those of 1953-54. This year inquiries from foreign nations about supplies and prices of dry peas have come a little earlier in the season than usual, probably due to poor quality peas produced in Northern Europe. If exports of dry peas in 1954-55 are much heavier than in the preceding marketing year, prices received by farmers should average higher than those for 1953-crop peas and the carryover in fall 1955 probably will be no larger than a year earlier.

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UNITED STATES DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service

THE OUTLOOK FOR WHEAT IN 1955

Statement presented by Robert E. Post at the 32nd
Annual Agricultural Outlook Conference,
Washington, D. C., October 26, 1954

Many of you have been following the wheat situation and have read the outlook statement which was released in August as an aid to farmers in making plans before seeding the winter wheat crop. Accordingly, what I am about to cover may be considered a brief review, plus changes to bring the situation and outlook up to date. My remarks also will serve as background for comments and discussion at the wheat session Friday afternoon. Working with me this year on the content of this talk were: Virgil Gilman (Federal Extension Service), Warren Bailey (Agricultural Research Service), Ed Bell (Foreign Agricultural Service), J. Murray Thompson, (Commodity Stabilization Service), and Madge Reese (Federal Extension Service).

This first chart (650) shows seeded acreage of wheat climbing from 53 million acres in 1942 to 84 million in 1949, and then fluctuating at high levels until 1954, when it was reduced to 62.6 million acres by acreage allotments and marketing quotas. The small acreage back in 1942 was associated with marketing quotas. In that year, wheat supplies had reached 1,600 million bushels, the record high up to that time. July 1 stocks were 631 million bushels. Exports had averaged only 33 million a year for the previous 4-year period.

But the war changed this supply picture. During the war wheat was subsidized for alcohol and for feed. In two years the large carry-over was cut in half, and beginning in 1945, unusually large exports practically absorbed the excess above domestic use until the 1952-53 season. Then, the carryover increased from 256 million bushels July 1, 1952 to 903 million July 1, 1954. Here let us recognize two things: The magnitude of this increase, and the time it took. The 903 million bushels in 1954 was fully 3-1/2 times the 256 million in 1952, and it took only two years to do it.

The sharp increase in stocks set the stage for reimposition of acreage allotments and marketing quotas. Marketing quotas, you remember, were voted for the 1954 crop, but the acreage allotment could not go below the minimum for that year of 62 million acres. They have been approved again for 1955, and that year's allotment was set at the permanent minimum of 55 million acres. In the absence of the minimum the allotment would have dropped to about 19 million acres. The acreage seeded for harvest as grain for the 1955 crop is expected to be about the same as the 55 million-acre allotment, which would be a reduction of about 12 percent. This would be the smallest acreage since 1953 when 53 million acres were seeded.

The increase in production since 1942 is shown in the chart (650) on the left. Production in these years not only reflects increased acreages, but yields in most years were high, resulting from favorable weather, improved seed, and improved production practices. The drop in 1951 reflected low yields in that year. Yields per seeded acre in 1954 are estimated at 15.3 bushels, only slightly below the 1943-52 average.

This chart (1015) shows U. S. wheat supply, which includes not only production but also imports and carryover. With stocks shown on the lower section of the bars, the sharp increase in stocks in the last two years stands out.

This next chart (1016) shows the way the total supply is distributed between domestic use, exports, military, and carryover. The quantities used in the U. S. have varied only slightly except for the war years, whereas exports which are the first crosshatch above the black have varied greatly, especially in the postwar period.

This chart (1017) shows that each of our domestic uses, food, feed, and seed, has changed but little in the last five years. During the war large quantities were used for feed and substantial amounts were subsidized for alcohol manufacture for war use.

Now let us look at the situation as it exists in the current 1954-55 year. Total wheat supplies are estimated at about 1,867 million bushels, consisting of a carryover of 903 million, a crop estimated at 959 million, and an allowance for imports of 5 million bushels, mostly of feeding quality wheat from Canada. However, imports of feeding quality wheat could exceed this figure because the Canadian crop includes a large proportion of poor quality grain. This indicated total supply constitutes a new all-time high, exceeding the previous record of 1,736 million bushels in 1953-54 by almost 8 percent.

Domestic disappearance in 1954-55 is indicated at about 660 million bushels, which would leave about 1,210 million bushels from the total supply for exports and carryover. It is too early in the season to estimate exports, but there are indications that the total may be larger than the 216 million bushels exported in 1953-54. An optimistic appraisal of present prospects would place the 1954-55 total as high as 250 million bushels. Exports of 250 million bushels in 1954-55 would leave a carryover on July 1, 1955 about 50 million bushels above that at the beginning of the year. This still would represent an increase, but not a large one compared with the previous two years.

The Outlook for 1955.- As a result of an amendment to the Agricultural Adjustment Act of 1938, as contained in the Agricultural Act of 1954, a farmer may seed any number of acres to wheat that he wishes for the 1955 crop, provided that ahead of harvest he plows up any wheat acreage in excess of his allotment, and still be in compliance for price support and not subject to marketing quota penalties. Heretofore, compliance had been determined on a seeded acreage basis well before harvest. As a result of this new

provision many farmers probably have "overplanted" in the winter wheat areas of the southern plains and probably will "overplant" in the northern spring wheat areas. Next summer they may adjust their wheat acreage to their allotments. If so, these farmers, naturally, would plow up or abandon first any fields where the wheat has winter-killed or otherwise failed. Next they would plow up the fields with the poorest prospects for a crop. As a result, it seems reasonable to expect that yields per harvested acre may be higher than they otherwise would be. Some farmers will prefer this manner of using "diverted acres" rather than an alternative crop.

The use of the 1943-52 average of 15.4 bushels per seeded acre for projection purposes allows for calculation at a somewhat higher yield than otherwise would be used to provide for the use of harvested acres for allotments, since the average for the most recent 5 years (1950-54) is 14.7 bushels. Crop prospects in the Southern Great Plains area are less favorable to this date than usual.

If the acreage seeded for the 1955 crop approximates the national allotment of 55 million acres and if yields equal the 1943-52 average, a crop of about 850 million bushels would be produced in 1955. It is always necessary to point out that a figure like this is not a forecast of production in 1955, since it is based on the assumption that yields will be about average and that farmers will comply with acreage allotments about as they have in past years when marketing quotas were in effect.

It is expected that domestic disappearance and exports will exceed a crop of 850 million bushels, making possible some reduction in stocks in the 1955-56 marketing year. Domestic disappearance is not expected to differ much from the 660 million bushels estimated for 1954-55. If exports should again amount to 250 million bushels, disappearance would total about 910 million bushels, or about 60 million bushels in excess of an 850 million-bushel crop, which would mean a reduction in the carryover by July 1, 1956 of about 60 million bushels.

Now let us turn to prices. This chart (836) shows wheat prices and loan rates at Kansas City. The loan program started in 1938, with an average loan rate of 59 cents, which was at the rate of 52 percent of parity. It will be observed that loan rates have climbed steadily over the years. This is because of both an increase in the parity index and in the percentage of parity. It will also be observed that wheat prices have averaged around or near the effective loan level for the season, except for two years. In 1946-47 and 1947-48 demand was exceptionally strong and prices were substantially above the support level. Before leaving this chart, it might be well to point out that in 14 of the last 15 marketing years, the monthly average cash hard winter wheat price was lowest of the year in either June, July, or August. In 9 of the last 15 years, the price averaged highest in March or later. In other years, except in 1952, when the price averaged highest in November, the high has occurred in December-February.

Cash wheat prices have been strong the early part of this marketing year (chart 836). This situation reflects a relatively short supply of "free" wheat. Of the July 1 stocks of 903 million bushels, all but about 40 million bushels were either owned by CCC or otherwise held off the market by the support programs. Moreover, a large proportion of the 1954-crop wheat was placed under support early in the marketing year. Accordingly, even though we have an all-time record supply of wheat, supplies of "free" wheat in marketing channels have been limited and prices have reflected the influence of the support programs. Prices of some quality wheat have been sufficiently above the loan so that quantities have been sold domestically by the CCC at a level which represents 105 percent of loan plus reasonable carrying charges. On the other hand, there are sufficient supplies of wheat priced below the loan so that the average price is substantially below the loan level. In mid-September the price to producers averaged \$2.07 compared with an effective loan of about \$2.15 (\$2.24 less an allowance for storage). On the basis of market prices, the average reported for mid-October is expected to be slightly below a month earlier. It is expected, however, that the average will continue to strengthen as the season advances. In 1953-54, the average price to growers, including an allowance for unredeemed loans at average loan values, was about 17 cents below the announced loan of \$2.21 and about 8 cents below the effective level. Wheat prices to growers are currently above a year ago and are expected to average moderately above the \$2.04 in 1953-54.

The national average support level for the 1955 wheat crop will not be less than \$2.06 per bushel. This is 82½ percent of the August parity price for wheat. The national average support level for 1954-crop wheat is \$2.24 per bushel. Support rates for wheat produced in the commercial area in 1955 will reflect the full national support level. In the newly designated 12-State non-commercial wheat area, wheat will be supported on the basis of 75 percent of the full support level. These States are Arizona, Alabama, Connecticut, Florida, Louisiana, Massachusetts, Mississippi, Maine, New Hampshire, Nevada, Rhode Island, and Vermont. Farm wheat allotments and marketing quotas will not apply in these States.

In my remarks thus far I have given a general review of the highlights of the wheat situation and outlook, including new developments since The Wheat Situation was issued in August. We have recognized that exports in 1954-55 are now expected to be higher than in August, with the carryover July 1, 1955 lessened accordingly. Another development since August has been the announcement of the elimination from the program of the "total acreage allotment" provision with respect to the use of acres diverted from wheat and other crops which was to go into effect for 1955 crops. No change, however, was made in the cross compliance requirement. Under the latter, a producer must comply with all individual crop allotments in order to be eligible for price support on any crop. Other changes which have been made which affect wheat producers in 1955 are: (1) A producer with a wheat allotment of less than 15 acres, who exceeds his wheat allotment but does not seed more than 15 acres, will still be eligible for price support on other crops if he stays within all other allotments, even though he is not eligible for wheat price support. (2) In order to be eligible for any price supports in 1955, harvested acreage

of vegetables, potatoes, and sweetpotatoes (for the fresh market or processing), must not exceed the average acreage of these crops planted for harvest on the farm in 1952 and 1953. (3) Compliance with all basic crop allotments, including the wheat allotments of less than 15 acres, will be a condition of eligibility for ACP assistance.

As I pointed out in my opening remarks, the object of this talk was to serve as a review of the wheat situation and outlook which was originally released in August. We know that you have many questions for discussion at the session on Friday. Virgil Gilman, who is Chairman of that session, has had a number of subjects brought to his attention. Some of these center around the world wheat situation and United States export outlets. In this connection, while I have the use of slides, let me show two charts contained in the Chart Book issued by the Foreign Agricultural Service.

This chart (FAS 110) shows production in Europe, excluding Soviet Russia, sharply up in the postwar years. The chart also shows high level of production in the United States and Canada in 1952-53. Production in both of these countries is down in 1954, but stocks are large.

This chart (FAS 400) shows production of countries other than the big-four exporting countries (United States, Canada, Australia and Argentina). Their production is up about 250 million bushels in the last 2 years. The result has been a drop in world trade of about 230 million bushels. This drop in world trade has been an important factor in the sharp rise in stocks in the four major exporting countries also shown in the chart. In addition to the export outlook, other topics for discussion on Friday will probably include: Uses of diverted acres; uses of land seeded to wheat in excess of allotments; and whether Government programs have actually resulted in the production of high yielding varieties at the expense of quality.

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UNITED STATES DEPARTMENT OF AGRICULTURE
Foreign Agricultural Service
Washington 25, D.C.

X PROSPECTS FOR AGRICULTURAL EXPORTS X

Statement by W. G. Lodwick, Administrator, Foreign
Agricultural Service, at 32nd Annual Agricultural
Outlook Conference, Washington, D.C., October 25, 1954.

The prospect for United States agricultural exports this year is fairly hopeful. We should be able to increase our agricultural exports by 10 percent above the value of 1953-54. The increase may be slightly more than 10 percent, depending on the success of our surplus disposal programs. This would be the second straight year of gradually rising exports, for this past year they improved by 4 percent over the low postwar level of \$2.8 billion in 1952-53.

This prospect is encouraging. It indicates that for the present, at least, the declining trend in our agricultural exports has been reversed. By no means can we count on healthier foreign markets providing the total cure for our surplus problem -- but to the extent that our foreign markets hold steady or keep on improving, it will give that much strength to our total marketing position.

The most hopeful prospect for expanding overseas sales appears to be among cotton and tobacco. We think there will be some gains in export of wheat, grain sorghums, barley, and rice. We will continue to export fats, oils, and oilseeds in heavy volume. As for fruit, there should be some increase. For dairy and meat exports, as well as corn, not much change is in sight, although some plans are contemplated that may alter this picture.

I will not try at this time to go into details of why we think the export picture is shaping up this way for individual commodities. I know that you are looking forward to the commodity discussions that are scheduled for tomorrow afternoon and later sessions in which the details will be presented. I would like, instead, to concentrate on some of the overall considerations that directly influence our exports.

In order to get today's agricultural export situation into perspective, I think we may begin by comparing today's level of exports with the level following the First World War. By comparison, our foreign markets are holding up fairly well. In 1919, as you may recall, our agricultural exports went over the \$4 billion mark. But just two years later, 1921, the bottom fell out and our farm exports were down to \$2 billion. After temporary improvement, they kept on going down through the '30s, and reached a low point of less than half a billion dollars in 1940, the first year of the Second World War. On a volume basis, our present agricultural exports are comparable to those of the late '20s.

We can skip rather rapidly over the period of 1940 to 1950. This was not a true marketing period. We fed our troops, we helped feed our allies, and we helped out with postwar reconstruction -- but we were not marketing in the normal commercial sense. In 1948-49, for example, 60 percent of our agricultural exports were paid for by our foreign aid programs.

Since 1950, our agricultural exports more and more have had to stand on their own feet. Last year, only 12 percent of our farm exports were paid for by our foreign assistance programs. I think it is rather remarkable and speaks well for the improving economic level of our foreign customers that our overseas markets are holding up as well as they are. At least, we have not suffered a degree of set-back like that following the First World War. Gold and dollar reserves have been growing, so that they are less of a restrictive influence. The general economic situation is more sound than it was in the 1920's.

We all are inclined, of course, to think back with some nostalgia on the 1951-52 year when our farm exports went up to \$4.1 billion. But that was abnormal. A lot of the extra buying was scare buying, resulting from the war in Korea. That is one kind of buying that none of us wants. The following year was unusual, too, when our exports dropped by 31 percent to a total of \$2.8 billion. That drop was due mainly to overstocked foreign inventories, restored farm output in producing countries, and generally favorable weather. Now our exports are in a slow, steady climb back up. This past year, they gained 4 percent, for a total of \$2.9 billion. A gain of 10 percent additional this year would put them up to \$3.2 billion. I think we have every reason to aim at a peacetime level of agricultural exports above this figure. In view of the world's need and our own ability to produce, such a level of agricultural exports is a very rational target and one that can be supported not only by our own producers but equally by the world's consumers.

Our own population is growing rapidly. As we go along, the home market may provide at least some of the eventual solution to our surplus problem. But we cannot depend on that. For the present, at least, despite the growing self-sufficiency of many importing countries, there is actual foreign need for much of our production that is above domestic requirements, and we, in turn, need that foreign market. The big question that we face is how we can successfully distribute our excess production to the world's customers in view of existing hindrances to trade. It will be a real test of our trading abilities to see whether we can maintain a healthy volume of farm exports and do it in the old-fashioned way of doing business.

It is not that any one of us is against charity. Charity has its essential place in human relationships, and I think that we are all strong supporters of the Red Cross, the Community Chest, and similar public-spirited organizations. We recognize the value of the aid given the free world since the war in helping it get back on its feet. Except in emergency situations, however, we all place our greatest reliance on private channels of distribution. People the world over like to earn honest wages, they like to select what they get, and they like to pay for what they get. The donated food parcel can never replace the groceries purchased at the corner market.

It seems to me that our thinking on foreign agricultural trade has had to go through quite a reorientation this past year or two in order to arrive at the realistic, commercial approach we are now trying to take. Many of you attended the Outlook Conference a year ago, and you recall that John Davis, then Assistant Secretary, went into this matter to some extent. He pointed out that we needed to get back to some basic principles of marketing and do some long-term thinking, in order to build substantial trade relationships for the years ahead. Today we are moving strongly in that direction. I think there is growing recognition of this need -- in agriculture, in Government, and in the trade. We finally are recognizing that we have returned to an era where quality, price, salesmanship, ingenuity, and hard work are demanded if we are to compete successfully with other world suppliers and meet the needs of the world's consumers.

It is hard to say which of these essential factors we should place first, but we do know that in the world of business, quality and price cannot be overlooked. The factors that move merchandise here at home also move our farm commodities overseas.

Our prices in some cases have been out of line with competitive world prices. In this respect, Government action can be helpful -- but there is no Government substitute for a good salesman with an order book in his pocket. Nevertheless, through Government export programs along with the flexible price support program, we are trying to move toward a more competitive price position.

As to the attractiveness of farm products offered, that is something where agricultural producers and the trade can do the most. As good Americans, we are somewhat inclined to think that ours is the best. Unfortunately, however, American farm products do not always merit a favorable reputation among foreign buyers. Too often we fail to produce the type of product most desired abroad. Too often a product of good quality when it leaves our farms will have been down-graded to minimum acceptability by the time it leaves our shores. We in Government are not policemen of export attractiveness, and there are few laws on our books that establish export quality standards. But our private agricultural trade can -- and I think for its own self-interest should -- become its own watchman. The level of our future agricultural exports is going to depend on the quality and acceptability of the commodities that are offered to foreign buyers.

This is a challenge in which the assistance of you people from the State colleges is greatly needed. I think you have an outstanding opportunity to help shape the course of our agricultural exports by contributing to this little-touched field of foreign market acceptability. When, for example, we offer wheat to a foreign buyer and he says it does not suit his purpose, maybe it indicates your states should have grown some other kind. I don't want to confine the illustration to wheat -- it pertains to other commodities as well. We take it for granted that we have strong and precise buyer preferences here in the United States, and we try to meet them. In this new and competitive era of foreign marketing, where the buyer's market prevails, we must accept the fact that there are exacting buyer preferences overseas as well as at home. Today's buyers are in a position to pick and choose.

In my opinion, this return to commercial competition in our foreign marketing is all to the good. We are getting back to fundamentals, and also we are entering an era when Government and trade must learn to work together in meeting these export problems. We in Government have no intention of becoming merchants. The buying, selling, and handling of agricultural commodities is the legitimate, established function of private trade. We have no desire to take over that job. But there are various ways in which we can render special assistance. I would like to review them briefly because I think they are important to our export outlook.

One of these services to agricultural trade is our foreign reporting and contact work. Very few American exporters can afford to have their own men stationed around the world in key importing areas. Through the facilities of the Department of Agriculture, however, they are able to keep continuously in touch with developments in the foreign field. We in the Foreign Agricultural Service receive communications from our overseas representatives at the rate of some 225 every working day, and this information on foreign production, marketing, and trade situations is passed along to exporters and others needing it. We are sending marketing specialists on special foreign studies to look into sales opportunities, and their findings are reported similarly. Since September 1, the agricultural attaches -- who in recent years have been employees of the Department of State -- once more are back with us as employees of the Department of Agriculture. This means, for purposes of agricultural trade intelligence, commercial contacts, and general market development, a straight line of communication into some 40 foreign countries. All this gives our agricultural trade a basis for informed business dealing that for most exporters would be impossible had they to rely entirely on their own resources. To some extent, our improving of these services should contribute to the level of our future exports.

Also, the Government has its various export programs. These are programs that help export commodities under circumstances unfavorable to regular commercial marketing. In most instances, such programs look to private trade to actually handle commodities involved, with Government expediting the transactions. Methods of expediting include export payments, acceptance of foreign currencies, and to some extent, relief donations. Such programs today do not account for the major part of our total agricultural exports, but they too are an important factor in the outlook picture.

One of these aids is the Agricultural Trade Development and Assistance Act of 1954, Public Law 480 of the 83rd Congress. This Act authorizes sale of commodities under certain circumstances in return for foreign currencies. Foreign Agricultural Service administers Title I of the Act, and we are making good progress in contacts with foreign countries that in the months ahead should lead to some substantial sales.

Another part of the same Act authorizes use of \$300 million of our surpluses for urgent relief requirements in foreign areas. This is administered by the Foreign Operations Administration. Under another authority (Public Law 665, 83rd Congress), FOA also has authority for using \$350 million or more of its funds to finance the sale of surpluses for foreign currencies.

These programs are important to countries that want our commodities and can pay with their own money but are short of dollars. They open up new opportunities in such areas because they help get around the convertibility problem.

And now, one final observation regarding what Government can do to assist exports, and that involves the problem of trade barriers. You recall our Agricultural Trade Missions that made studies last spring in Europe, Asia, and Latin America. When these men, who were largely agricultural businessmen, returned and wrote their report, they noted no less than 13 separate and distinct problems that our farm products face in entering today's world market. Many of those problems -- such as bilateral trading, selective use of dollars, state trading, and protectionism -- are thought of as outside the scope of normal business. The more that we get into trade problems such as these, however, the more it becomes apparent that not only Government but all of us have a great and joint responsibility in their solution. We recognize the need of protecting our own agricultural market from certain kinds of foreign competition, and we are doing it because our domestic market is our big market and we know that it must be preserved. When we see a foreign country setting up similar protection for its own home market, we need to recognize that they're playing by the same rules. We can work at persuading countries to lower their trade barriers, and we intend to work at it hard. It is discouraging for our exporters to try to do business in a world where multiple prices, bilateral dealing, discriminatory quotas, and state trading have become the rule rather than the exception. In the long run, however, I suspect that it will not be our Government's negotiations that help us get over these barriers as much as our success in offering products that meet our foreign customers' specific needs and that are attractive in price and quality. When we as a Nation learn to do a more effective job of marketing, many of the barriers that trouble us now will become of less consequence. There's a lot to Emerson's adage about the better mousetrap bringing the world to your door.

In conclusion, I want to pay my respects to this highly informative outlook meeting. From the viewpoint of the average foreign country, our Annual Outlook Conference is a unique, almost mystical occasion, in which we review the past and endeavor to look into the future. I hope that you will excuse me if I throw in this one cautionary note. Today we believe that our agricultural exports can improve during this year by 10 percent or more -- but let us not take that "prediction" to mean "predestination". By no means is it predestined that our exports will continue on the up-grade. What does happen will depend on what a whole lot of us are able to do. There is excellent prospect of our exports continuing upward, but they will do it to the extent that agriculture, private trade, and Government are able to stand behind them and push.

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Noon Monday
October 25, 1954

WHERE OUR NATIONAL ECONOMY IS HEADING

Remarks of Dr. Grover W. Ensley, Staff Director
Joint Committee on the Economic Report, U. S. Congress
Before the
Thirty-Second Annual Agricultural Outlook Conference
Washington, D. C.
October 25, 1954

From earliest times Americans have liked to set goals for themselves. Actual developments have usually exceeded these goals; particularly is this true in the economic area.

In the late 1920's, when the Nation was thinking in terms of "a new era," I doubt if many visionaries thought, or economic analysts assumed, that in the short span of the following 25 years, while overcoming the twin disasters of deep, prolonged depression and an exhausting world war, we would:

Increase population nearly one-third;

Reduce the average work-week 4 hours;

Increase output per man-hour 75 per cent--almost 100 per cent in agriculture;

Double national production in constant prices; and

Raise real disposable incomes per capita nearly 50 per cent on the average, and even more in agriculture.

Perhaps one reason achievements have typically exceeded expectations lies precisely in this characteristic persistence of Americans to look ahead. But looking ahead is not a complete explanation of our phenomenal progress. More important is the inherent eagerness of Americans to adjust plans and programs, to change traditional ways of doing

things, to work hard, and even to pick up stakes and move in an attempt to be more productive, raise living standards, and secure greater freedom.

Over more than three decades these Outlook Conferences have been important in helping those engaged in agriculture to look ahead and adjust their programs in the interests of the individual farmer, the community, and the Nation. Indicative of the importance of these Conferences is the regular and increasing attendance of business, labor, finance, and Government economists. It is a distinct honor to be asked to participate in this thirty-second meeting.

I have been asked to discuss "Where Our National Economy is Heading." This, of course, is a subject uppermost in the mind of every person connected with the machinery of the Employment Act of 1946. The Joint Economic Committee Staff constantly projects trends of population, labor force, hours of work, productivity, and the trends, plans and expectations of Government, business and consumers to see if they throw light on where our economy "may" be heading.^{1/} The Staff has recently assembled what we hope is a reasonable and consistent set of economic projections of these factors for the next decade. We have sought to construct a Nation's Economic Budget for the economy as a whole, and by major segments, for the year 1965.

^{1/} See for example Sustaining Economic Forces Ahead, Joint Economic Committee Print, 1952; and "The Economic Outlook and Other Materials Prepared by the Committee Staff," in the Joint Economic Committee Report (House Report No. 1256), February, 1954.

In this study we have had the assistance of many analysts--both inside and outside of Government. We believe the materials represent a synthesis or consensus of informed views. I want to emphasize, however, that the responsibility for combining the estimates and opinions into a consistent whole rests solely with the Committee Staff. The details of this study will be available to those interested as soon as mechanically possible, but this morning I will try to summarize our major findings.

Obviously these materials are not presented as a forecast or prediction of what will actually happen in 1965. Rather they are projections of what could happen. Whether they happen or not will depend upon the reasonableness of the assumptions.

In these projections we have assumed the Employment Act's "maximum" economic growth as the goal, but do not try to justify any given level of unemployment as being consistent with that goal. I hasten to add, however, that we have not assumed an overtime economy such as would be expected in an emergency.

It would be unrealistic to assume a constant, or steady, rate of economic growth every year. For example, 1954 will be slightly below--just as the early months of 1953 were probably above--the long-term trend line. It is quite obvious that extreme economic fluctuations or international complications could increase or decrease the Nation's productive capacity and actual demand by 1965. It is assumed, however, that any slowing up in the rate of growth or actual decline in one year will be made up by a later accelerated growth and

vice versa. In short, no allowance is made for stagnation, major depression, or war. Without taking time to go into detailed reasons for making general purpose long-run projections on these assumptions, I wish to express confidence in the achievements possible through improved economic knowledge, increased flexibility of public and private programs, and the automatic built-in stabilizers now so familiar to all.

The calculations for the year 1965, which I want to talk about, are on the basis of approximately present prices. Certainly it is mechanically more satisfactory to make projections on a stable price level assumption. But even more important, reasonable stability of the general price level should be the goal. The public and private debt structure, for example, would be in jeopardy if the price level declined materially over the next decade. Equally persuasive arguments can be made for pursuing policies which would prevent any material rise in the general level of prices. Such a price assumption would not, of course, rule out changes in individual prices and the dynamic role of such price changes in our competitive system. Whether events will permit relative general price stability remains to be seen, but under this assumption income from the expected significant increase in productivity would largely go to the factors of production--wages, salaries and profits.

A look at population trends is the first important step in trying to analyze where our national economy is heading. The size and composition of the population affect both potential national production and potential demand for that output. On the basis of present fertility

rates, our population can be expected to increase to about 190 million people by 1965, compared with just under 160 million in 1953 and something over 162 million today. This increase of approximately 30 million in twelve years (between 1953 and 1965) is equal to twice the population of Canada. It represents an annual increase of about 2-1/2 million each year, or the equivalent of the population of Louisiana or Maryland. The rate of growth is predicated on the assumption that the period will be one of well sustained economic activity. If a depression occurs, of course, we could not expect such rapid population growth.

From an economic standpoint, the changing composition of the population between 1953 and 1965 is perhaps more significant than the expected 19 per cent growth in the total. For example, the labor force will probably increase only about 18 per cent. On the other hand, the number of children under 18 will likely increase 28 per cent and the number between 10 and 18 by over 50 per cent. I find as a father these youngsters are heavy consumers but are not very productive. Also, the number of persons over 65 will increase by 30 per cent, or significantly faster than the total population. The effect of these population changes during the next decade will be to increase the demand for food, clothing, shelter and other consumer goods and services, on the one hand, and to decrease the rate of savings of the family breadwinner on the other.

Let us now analyze more specifically the factors making for economic growth on the supply, or production, side during the next few years. These are the size of the labor force, hours of work, and productivity.

All persons who will be available for work in 1965 are already born so we can make a reasonably good estimate of the size of the labor force at that time. Possible changes in the desires of the young, the aged, and women to enter or leave the labor force, or migration into or out of the country, could increase or decrease this estimate somewhat. On the basis of present knowledge of trends in participation rates, however, the total labor force in 1965 should be about 79 million. Accounting for present cold-war requirements, perhaps 3 million will be in the armed services. It is also arbitrarily assumed that approximately 4 per cent of the civilian labor force will be temporarily unemployed as a result of technological changes and normal turnover in a dynamic and expanding economy.

These assumptions suggest civilian employment of 73 million persons in 1965 as compared with approximately 62 million in 1953. Among those who study the problem intensively, the consensus is that 5-1/2 million of these will be primarily engaged in agriculture compared with 6.7 million in 1953. This decline in agricultural employment is supposed to be consistent with an assumption of maximum and balanced economic growth in the economy generally. It represents a continuation of the long term declining trend of agricultural employment but at a rate of decline slower than has prevailed in recent years.

Another 7-1/2 million persons seem likely to be employed in civilian Government--Federal, State and local--compared with just under 6 million in 1953. While this implies about the same number of Federal employees, it assumes an increase in the number of State

and local employees to provide education, highway, community and other traditional services to a rapidly growing population. These calculations thus leave 60 million persons in private nonagricultural employment in 1965--an increase of just over 10 million from 1953.

A second factor influencing the amount of national output is hours of work. Average hours of work are expected to continue to decline. This might take the form of a reduction in the work-week by 1965 of as much as 4 hours, or an increase in vacation or holidays of 20-25 days per year, or some combination of these alternatives, adding up to a reduction of about 200 hours per year per man by 1965. A three-day weekend is something to look forward to in the years ahead. The economic and social implications of this trend cannot be minimized. While significant in calculations of potential output, its effect on consumption and investment is also significant. Additional investment and consumer expenditures to satisfy the leisure-time hobbies, educational and cultural pursuits of the population, should be a substantial expansionary force.

The third factor affecting potential production in 1965, of course, is productivity, as measured in terms of output per man-hour. Here lies the real secret of American economic strength. It is of vital importance that increases in productivity accompany the growth of population in the future as in the past and that this increase in productivity be widespread among all segments of the population and all regions of the country. Intensive research and development plus a high level of investment by industry and agriculture are expected to make possible continued spectacular advances in output per man-hour worked.

It is assumed that agricultural output per man-hour will increase 3 per cent per year, somewhat less than in recent years, but higher than the 1910-1953 average of about 2 per cent. In non-agricultural industries the rise is assumed to be about 2.5 per cent per year on the average, with some sectors more and some less. This is above the 1910-1953 average, but is edged a bit upward because of the effects of a high rate of investment and of technological advance.

The implications of this trend in productivity are important. Fewer workers will be needed on the farms. Those who remain on the farm must be more highly skilled. Industry must provide proportionately more job opportunities. Increasing numbers of workers in all fields of endeavor will be called upon to make employment adjustments--learn new skills, move to new locations, develop abilities for leisure.

These figures on labor force, hours of work and productivity suggest that total national production potential for 1965 could be about \$535 billion in approximately present prices, an increase of about 50 per cent from present rates.

Efforts to estimate or arrive at acceptable assumptions respecting factors making for economic growth on the demand side during the next decade present a much more difficult and hazardous task.

Total Government expenditures for goods and services--Federal, State and local--could exceed \$95 billion in 1965, compared with \$85 billion in 1953. Unless the international situation changes materially, national defense programs could require Federal expenditures of about \$40 billion per year. Public civilian construction could amount

to at least \$17 billion compared with \$10 billion in 1953. There will be increases in other civilian Government expenditures as the population grows and as public pay-scales increase in line with rates in private industry.

As a first approximation, the Federal budget is assumed to be balanced in 1965 at levels permitting tax reductions of perhaps 15 to 20 per cent below hypothetical yields at present rates. We would expect a State and local Government deficit of some \$2 billion--reflecting the financing of schools, highways, hospitals, and other public investment expenditures necessary on a vast scale to keep up with a rapidly growing population. I would like to emphasize the problem of State and local finance. Innovations will be required if these governments are going to meet the demand for traditional services. Newer techniques and new institutions such as the public authority, lease-purchase, capital budgets, and the like need to be explored, adopted and used. Fortunately, much study is currently being given to this problem.

The estimates of Government expenditures that I have given reflect past trends and therefore they may be too low. Demands for traditional services may exceed past trends and new services may be added as our national productive capacities advance and our standards of living rise. Then, too, as a result of their haphazard development, most American cities have deteriorated physically. In this age of potential H-bomb warfare, and of changed living habits and technological improvements, there would seem to be vast potentials for economically sound investment--perhaps in part by combined public and private authori-

ties--in the rebuilding of the Nation's cities, in decentralization, and in industrial dispersal.

Estimates of the rate of private investment during the next decade have been made on the assumption that population growth, research and development, and intense competitive pressures will vastly expand business investment opportunities. We have estimated that residential nonfarm construction will increase from \$12 billion in 1953 to \$16 billion in 1965 to achieve and maintain the stock of housing demanded by the anticipated 56 million households. This is equivalent to adding about 1-1/2 million new housing units per year as compared with just over 1 million in 1953.

Business expenditures on plant and equipment are assumed to amount to \$60 billion per year--approximately 60 per cent over 1953. This figure is made up of about \$25 billion to replace fixed assets actually retired, and about \$35 billion for accelerated replacement of obsolete but not worn-out assets and for the expansion of capacity. The development of atomic and, possibly, solar energy for peacetime uses on a practical scale would open the way to enormous investment expenditures to provide cheap and virtually unlimited power to every geographic location. Some increase in private net foreign investment has been assumed, but if satisfactory international arrangements and incentives to private efforts could be worked out, the United States could duplicate in the second half of the 20th century what Great Britain did in the 18th and 19th centuries in the way of exporting capital--particularly to underdeveloped areas. The effects of such investment should be stimulating to United States agriculture.

Business investment expenditures of about \$80 billion, including residential construction, plant and equipment, net foreign investment, and moderate inventory accumulation may seem high, but other assumptions provide for a lowering of tax rates, and a roughly doubling of corporate profits after taxes; thus there would likely develop the necessary incentives. There should be adequate internal and external funds to finance these high rates of private investment. It is assumed that monetary policy will keep in tune as a credit and money facilitator and supplier.

The most significant area that could either contribute to or disturb balanced economic growth over the next decade will be the pattern of consumer budgeting of income between savings and spending. The problem of maintaining maximum employment and balanced economic growth would be complicated, for example, if the savings rate should rise over the next decade towards an upper limit of perhaps 9-10 per cent, a possibility which is indicated by some studies of present trends. However, introduction of new products, changes in social aspirations and tastes, growth in the number of households headed by retired workers, more leisure time, and an increase in the proportion of population under 18 years of age should contribute to lowering the savings rate toward the 4 or 5 per cent levels of the 1920's.

If personal savings, for example, amount to about 6 per cent of personal disposable income, as compared with 8.6 per cent for the first quarter of this year, consumer demand would approximate \$360 billion in 1965 as compared with \$230 billion in 1953. The reasonableness of such

a relatively low rate of savings for a period a decade hence can be questioned, but we are impressed by the argument that American families will be buying more sweaters and bobby socks for their youngsters, with a consequent reduced capacity to save.

Since growing public revenues from an enlarged national income should make sizable Federal tax reductions possible, as indicated earlier, we can expect Government tax policy to facilitate increased personal consumption just as it would be expected to stimulate private investment.

On the basis of the assumptions set forth above, the aggregate demand of Government, business and consumers will clear the market of the \$535 billion potential production.

Obviously the balanced growth model presented in this study is only one of a number which could be constructed, and actual developments may differ in important respects. Some would assume, for example, an even shorter work-week with greater emphasis on increased leisure, or a different rate of productivity advance, or a greater role for Government expenditures. We have placed major reliance on private economic expansion. If events are to approximate this model personal expenditures for consumption, by one means or another, must increase significantly. It is believed that this adjustment, as well as most of the others that may be needed, can come about as usual through the spontaneous adaptation of the free private competitive system. But I would emphasize the important role of Government monetary and fiscal policies in facilitating this private expansion.

In spite of the obvious difficulty involved in making some of these adjustments, there are reasons for being optimistic about the outlook for long-run stability and growth in this country. First of all, the American spirit of enterprise gives industry, agriculture, and labor a competitive drive to surpass always the achievements of the past. Not until one experiences first-hand the restrictive practices and restraints on production and distribution in other countries does one fully appreciate the dynamic force of our American competitive system. It is probably the most important single factor explaining the productivity advances, and the ever-increasing volume and variety of goods and services available to consumers at prices they are able to pay. In the next few years we will probably witness keen business competition--the like of which we have not seen since the 1930's. We must pursue programs which will facilitate and strengthen this competition and provide maximum rewards for initiative and enterprise.

A second force for economic expansion which I want to emphasize is the demand on the part of the average American constantly to raise his level of living. This objective, however, is matched by a willingness to work hard to accomplish it. In recent years housewives, youth and the aged have been taking jobs whenever they were given an opportunity, in order to supplement the family income and buy that television set, refrigerator, or what-not. The implications of this characteristic are fairly clear. It means a restlessness on the part of most people and pressures to make modifications in public and private programs in ways calculated to improve living conditions and individual freedom.

I see no reason why we should witness any lessening of this driving force during the next decade.

A third factor important at present, and particularly promising for the future, is the new machinery and the evolutions of skill--both public and private--for making economic adjustments. I point to the Employment Act of 1946 as an illustration of the recent recognition of the cooperative responsibility of the Federal Government for dealing with the problems of economic fluctuation and economic growth. Statutes in 42 States and administrative machinery in all the States recognize this role of Government and are directed to facilitate maximum economic growth. One does not have to argue that the national economy has conquered the business cycle to recognize that the capacity for economic statesmanship on the part of agriculture, labor, management and Government is greater today than ever before.

The Employment Act calls for maximum economic growth. The moderate projections which I have presented for 1965 suggest the probability during the 12 years between 1953 and 1965 of:

An increase in population of one-fifth;

A reduction of the average annual hours of work of nearly 10 per cent;

An increase in output per man-hour of 40 per cent in agriculture and 35 per cent in private industry;

An increase in total national output of nearly 50 per cent in constant prices; and

A rise in real disposable income per capita of nearly 30 per cent.

These estimates are surely not out of line with the actual rate achieved during the last quarter century. To say they are too high would be the same thing as saying that America now has reached an uninspiring maturity and that it cannot achieve a rate of growth which was realized during 25 years of depression, war, and world reconstruction.

My remarks have been confined to an exploration of long-run potential growth. Optimism, I believe, is justified. This does not warrant relaxation on day-to-day economic problems. For example, I would like to emphasize the importance of increasing effective aggregate demand for national production in the coming months. Only if business, consumers and governments increase their demand, and hence production, can we have expanding employment opportunities. There is no solution in redistributing the same size pie. That pie must be made bigger. If we stand still gross national product wise we actually slip--when measured in terms of unemployment--because of our growing labor force and our increasing productivity. As the White Queen told Alice, "It takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that."

No discussion about where our economy may be heading would be complete without a word about the cold war. This struggle means a huge direct demand for production on the part of the Federal Government to meet military security requirements. It may necessitate even greater expenditures than assumed in our projections. This, of course, has im-

plications for the trend in living standards. It has far-reaching implications for general economic policy for the years ahead. The thesis of some people that the economy must experience significant economic fluctuations to strengthen the basic structure and eliminate the inefficiency and waste cannot be accepted today. Our position of world leadership in a struggle for survival against imperialistic communism necessitates that the American economy remain constantly strong. We cannot afford marked deviations from full employment. We must fully utilize our human resources, for only through production can we be militarily strong, improve our level of living and provide direct and indirect proof to the rest of the free world and the vast uncommitted areas of the world that our way of life is best.

The Joint Economic Committee of Congress, in its report last February, pointed out that those who plan agricultural policy must recognize the vastness of the Nation's future economic growth and the prospective demands for foods and fibers during the next decade. The Nation will clearly grow up to and pass present production levels, although our Staff study does not attempt to suggest a precise balance which will be achieved between the growth in agricultural output and ⁱⁿ the growth/available markets.

Since this is an outlook conference, I will close my remarks with the observation that so far as agriculture particularly is concerned outside factors, specifically wars, preparations for wars, and postwar settlements have been by far the most unstabilizing factors in the last half century. They have, of course, also been forces for

economic expansion. It is entirely possible that autonomous factors will continue to dominate developments in the next decade. But we must look ahead on the basis of what we know and on the basis of what we believe is reasonable to hope. Turning back then to the balanced growth model presented, there is some possibility that we have set our sights too high, but history indicates an even greater likelihood that we may have set them too low.

Washington, October 25, 1954

Summary of remarks by W. Randolph Burgess, Under Secretary of the Treasury for Monetary Affairs, at the 32nd Annual Agricultural Outlook Conference, October 25, 1954, U. S. Department of Agriculture, Washington 25, D. C.

State extension economists gathered here today for the 32nd annual National Agricultural Outlook Conference were told that the United States must not accept the philosophy that inflation is essential for a prosperous economy.

Under Secretary of the Treasury for Monetary Affairs W. Randolph Burgess told the group that this administration is dedicated to halting inflation which has cut the value of the dollar almost in half during the past 20 years, and equally to avoiding deflation. There are two methods of attempting to do this, said Burgess. One is through direct government controls. The other, and the one on which the economic policy of the present administration hinges, is through indirect government controls.

"This administration believes," said Burgess, "that we have demonstrated that certain fiscal and monetary methods are of great power in avoiding both inflation and deflation. These are budget control, freedom of the Federal Reserve System to carry out wise economic policies, and debt management.

To this end, stated Burgess, the rate of government expenditures has been cut by 10 billion dollars during the past 21 months and the annual tax take from the American people reduced by $7\frac{1}{2}$ billion dollars. The Federal Reserve System has been freed to devote its energies wholly to its lawful purpose of giving the people honest money, and preventing inflation and deflation. And the national debt has been managed for the same purpose, he said.

(more)

Burgess reminded his audience that economic freedom or, "opportunity unlimited," has been responsible for America's strength. Some call this liberal capitalism, he said, but whatever the name, it must be continued if the economy is to continue to grow. Such a system is dependent upon honest money and reward for saving, he added.

"For 20 years," said Burgess, "our National Government grew bigger and bigger and moved more and more into areas of the country's economic and social life. Some of these extensions of functions have proved proper and useful, but the trend towards centralization of power got out of hand. It brought us mounting expenditures, higher taxes, larger deficits, and inflation."

Burgess said that the present Government has turned against this trend. "The reduction in Government spending and taxes is evidence of this change. It is not a change in the sense of responsibility of the government for the people's welfare," said Burgess, "it is rather a difference in method and approach. The objective is a dynamic, vigorous and growing economic life and rising living standards. The function of our government is conceived as not so much to supply benefits directly to its citizens as to insure the opportunity for them to achieve them by their own effort."

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